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# NAVAL POSTGRADUATE SCHOOL

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# THESIS

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AN ANALYSIS OF FOREIGN MILITARY SALES  
PROCEDURES (TURKISH PROCUREMENT EXAMPLE)

by

Ozcan Saruhan

June 1989

Thesis Advisor:

E. Neil Hart

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An Analysis of Foreign Military Sales Procedures  
(Turkish Procurement Example)

by

Ozcan Saruhan  
First Lieutenant, Turkish Army  
B.S. Turkish War College, 1980

Submitted in partial fulfillment of the  
requirements for the degree of

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from the

NAVAL POSTGRADUATE SCHOOL

June 1989

## ABSTRACT

This thesis includes an analysis of United States Foreign Military Sales (FMS) Policy, U.S. Agencies concerned with FMS, and the documents that are used in the process. In the meantime, a specific Turkish FMS acquisition which is the conversion of the M48A1 tank to an M48A5 upgrade is explained in the thesis.

It concludes with the problems facing field activities managing a Foreign Military Sales program.

The objective of this thesis is to improve the effectiveness of the Turkish Armed Forces in procuring weapon systems.

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TABLE OF CONTENTS

I.	INTRODUCTION AND BACKGROUND . . . . .	1
A.	INTRODUCTION . . . . .	1
1.	General . . . . .	1
2.	Scope and Limitation of Research . . . . .	4
3.	Objective of the Thesis . . . . .	5
B.	BACKGROUND . . . . .	5
1.	History . . . . .	5
2.	The Place of the U.S. Arms Sales in the World . . . . .	11
3.	Scope of the United States Security Assistance Program . . . . .	13
II.	FOREIGN MILITARY SALES (FMS) DOCTRINES AND PROCEDURE IN THE UNITED STATES . . . . .	16
A.	BASIC DOCTRINES . . . . .	16
B.	PROCEDURES . . . . .	17
1.	Initiation . . . . .	17
2.	State Procedure . . . . .	22
3.	The LOA Process . . . . .	24
III.	PREPARATION OF LETTER OF OFFER AND ACCEPTANCE (LOA) AND PRICING AND BILLING SYSTEM . . . . .	32
A.	LOA PREPARATION . . . . .	32

B.	FOREIGN MILITARY SALES (FMS) PRICING SYSTEM	32
1.	General . . . . .	32
2.	FMS Pricing Elements . . . . .	33
3.	How to Calculate Price of New Procurement . . . . .	35
C.	FMS BILLING SYSTEM . . . . .	35
1.	General . . . . .	35
2.	Cash Accounting Procedures . . . . .	38
a.	FMS Trust Fund . . . . .	38
b.	FMS Customer Funds . . . . .	39
c.	Crossleveling . . . . .	39
3.	Documentation Used for Billing Cycle . .	40
a.	FMS Billing Statement (DD Form 645)	40
b.	FMS Delivery Listing . . . . .	43
c.	FMS Reply Listing to Customer Requests for Adjustments . . . . .	43
d.	FMS Financial Forecast . . . . .	43
e.	Holding Account Statement . . . . .	44
4.	FMS Case Closure . . . . .	44
IV.	EXPERIMENTAL PROCEDURE (TURKISH CASE) . . . . .	45
A.	STATUS OF TURKEY . . . . .	45
B.	SECURITY ASSISTANCE PROGRAM FOR TURKEY . . .	46
C.	TURKEY TANK MODERNIZATION PROGRAM . . . . .	47
1.	General . . . . .	47
2.	Initiation . . . . .	48

3. Review of the Case TK-B-USV . . . . .	51
4. Financial Status of Turkish Tank Modernization Program . . . . .	53
5. Special Billing Procedures for Turkey .	56
V. CONCLUSION . . . . .	58
APPENDIX A - PREPARATION OF LETTER OF OFFER AND ACCEPTANCE (LOA) AND PRICING AND BILLING SYSTEM . .	63
APPENDIX B - GENERAL CONDITIONS OF LOA . . . . .	78
APPENDIX C - DD FORM 1513, ORIGINAL CASE . . . . .	96
APPENDIX D - FINANCIAL ANNEX B, SUPPLEMENTARY FINANCIAL TERMS AND CONDITIONS . . . . .	99
LIST OF REFERENCES . . . . .	105
INITIAL DISTRIBUTION LIST . . . . .	107



## LIST OF FIGURES

Figure A.	U.S. Military Sales FY 82 - FY 87 . . . .	14
Figure B.	U.S. Sales as Percentage of World Sales 1976 - 1986 . . . . .	15
Figure C.	Submission of Request for Significant Combat Equipment (SCE) P&R Estimates, P&A Estimates and LOAs . . . . .	20
Figure D.	Submission of Requests for All Other Foreign Military Sales, P&R Estimates, P&A Estimates and LOAs . . . . .	21
Figure E.	LOA: DD Form 1513, The Actual Letter of Offer and Acceptance . . . . .	25
Figure F.	Regular FMS Case Implementation Schedule .	31
Figure G.	Location of Costs on DD Form 1513 . . . .	34
Figure H.	Sample Price Computation of New Procurement . . . . .	36
Figure I.	DD Form 645, Foreign Military Sales Billing Statement . . . . .	41
Figure J.	Tank Modernization Program Case Description . . . . .	50
Figure K.	Turkish Tank Modernization Program Case Values . . . . .	55
Figure L.	Terms of Sale . . . . .	74



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## I. INTRODUCTION AND BACKGROUND

### A. INTRODUCTION

#### 1. General

The importance of arms sales in the world has grown tremendously since the end of World War II, particularly in the last decade. Arms sales have become, in recent years, a crucial dimension of international affairs. Today, more countries have greater destructive capabilities than ever before. Having sophisticated arms, particularly in developing countries<sup>1</sup>, is one of the most striking and disquieting features of this trend. A side effect of this increased strength has also tended to decrease aggressive overtures of hostile powers.

Each year, weapons systems are increasingly becoming more destructive, more accurate, more numerous, and more available. To produce a variety of advanced arms based on high technology is extremely difficult for developing countries. The internal economic situation in these countries doesn't often allow for the establishment of an

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<sup>1</sup>Developing country, in this case, is defined as a country having Gross National Product, (GNP) per capita \$3000 or less.

advanced domestic arms industry. However, these countries still require technologically advanced weapon systems for self defense purposes. While there are new agreements to decrease nuclear arms stockpiles between the super powers, conventional arms transfers continue to play an increasingly important part in promoting international and regional stability while enhancing the security of allies. Thus, countries will continue to purchase required military weaponry from international sources.

After World War II, the United States became the industrial arsenal and major weapons supplier for its allies and friendly countries. From the onset the United States provided arms via "grant aid"; then, as the recipient countries made economic progress, "sales" replaced grant aid. Today, the transfer of military weaponry from one country to another is done in three basic ways: GRANT, LOAN OR SALES (Military or Commercial).

**Grant Aid** is a military assistance procedure rendered under the authority of the Foreign Assistance Act of 1961 (FAA) for which the United States receives no dollar reimbursements for the aid. Grant Aid is used in the Military Assistance Program (MAP) which is defense article or service to provide foreign countries on a grant basis.

Grant Aid does not include training. Since 1980, Grant Aid has been decreasing dramatically. FY 1990 proposed Grant Aid is just \$41,000 for all over the world.

**Loan** is the means of Foreign Military Sales Financing Program. Credits and loan repayment guarantees are provided to enable eligible foreign governments to purchase defense articles, services and training. These credit financing programs provide an effective means for easing foreign governments from grant aid purchases to cash purchases.

**Sales (FMS or Commercial)** is a program through which eligible foreign governments purchase defense articles, services and training from the United States Government or U.S. Industry. The purchasing government pays for all costs related to the sale. For any FMS program, an agreement is prepared by the United States Government (documented on DD Form 1513 which will be explained in Chapter II) and signed by both the U.S. Government and country to document the terms of the intended sale.

To implement such world wide transfers via the Sales Program, the U.S. has developed a process of documentation and approval, established subcommittees within Congress and organizations within the Departments of Defense and State to

monitor FMS. These procedures may change with time, but the basic requirements are stable.

This thesis will explain THE FOREIGN MILITARY SALES PROCEDURE by examining both the theoretical process and a practical application with a Turkish FMS Case: the procurement of conversion kits for a M48A1 tank to M48A5 conversion.

## **2. Scope and Limitation of Research**

The scope of this thesis includes an analysis of United States Foreign Military Sales (FMS) Policy, U.S. Agencies concerned with FMS, and the documents that are used in the process.

Chapter I will discuss the history of FMS and compare U.S. arms export levels on a worldwide basis.

Chapter II will explain the Conceptual Framework of FMS. The following questions will be discussed in this chapter:

- How is the FMS process initiated by a foreign country?
- Who is in the approval process for the U.S. Government?
- What are typical FMS procedures?
- What are the constraints imposed by the U.S. Congress on FMS?



- How does the customer country and the U.S. agree on price?
- How does the customer country pay for the sales?

Preparation of Letter of Offer and Acceptance (LOA) and Pricing and Billing system will be reviewed in Chapter III.

Chapter IV will present a specific Turkish FMS acquisition. Data involving the conversion of the M48A1 tank to an M48A5 upgrade for Turkey will be analyzed.

Conclusions and recommendations will be discussed in Chapter V.

### **3. Objective of the Thesis**

The objective of this thesis is to improve the effectiveness of the Turkish Armed Forces in procuring weapon systems through FMS. If the procedures inherent in United States Foreign Military Sales can be understood by field level Turkish officers, future procurement will be easier and military and political relations sustained.

## **B. BACKGROUND**

### **1. History**

Arms transfers have been part of international relations as long as mankind has been involved in war. This basic desire to obtain arms has not changed, only the

mechanisms of transfer have changed depending on policy, the technology involved in the transfer and the military and political relations between trading countries. Particularly, after World War II: terms of transfers have changed from "aid" to "trade"; arms have become more sophisticated; focus on the recipient has shifted to the Third World Countries<sup>2</sup> and; more countries have been able to procure advanced and sophisticated arms.

After World War II, Soviet diplomatic pressure in Turkey and communist guerilla actions in Greece became a concern for President Truman in the United States. Truman felt that the spread of Soviet hegemony was inimical to Asia Minor, the Dardanelles, Balkans and the Persian gulf. In support of his doctrine, Truman proposed a military aid package to Congress for Turkey and Greece. President Truman, in his address to Congress, stated: [Ref 1:p. 1-16]

I believe that it must be the policy of the United States to support free peoples who are resisting attempted subjugation by armed minorities or by outside pressure. I believe that we must assist free peoples to work out their own destinies in their own way. I believe that our help should be primarily through economic and financial aid which is essential to economic stability and orderly political processes.

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<sup>2</sup>Third world is defined as the group of nations which have not industrialized and are considered to be developing that capability, such as: Bolivia, Mexico, Peru, Thailand, Iran, Egypt, S. Korea, Syria, etc.



The passage of this legislation is recognized as the basis for what is known as the Foreign Military Assistance Program, later than main thrust behind the creation of the Foreign Military Sales Program.

In 1948, Secretary of State George Marshall, proposed heavy American aid to help Europe recover from its demolished economy following World War II. Congress accepted the request and established the European Recovery Plan (ERP) which included 16 nations in Western Europe. This plan, however, did not include Turkey.

In 1948, with establishment of the North Atlantic Treaty Organization (NATO), Security Assistance Programs became more important. Because NATO was created to be a bulwark against communist expansion in Western Europe, its existence forced allies to increase assistance to member nations, which included Turkey.

Security Assistance was enlarged during the Eisenhower years. President Eisenhower initiated a request dealing with assistance to various Middle Eastern nations to resist external armed aggression from a perceived communist threat. Congress approved the President's proposal by joint resolution on March 9, 1957. Eisenhower's belief was that the loss of the Middle East to "international communism"

would constitute a severe and fatal blow to American interests. This policy continued through the mid-1960s where allies received approximately 56% of all American arms via the Military Assistance Program or FMS Program.

On October 22, 1968, Congress enacted the Foreign Military Sales Act which consolidated into a single act, legislation to authorize sales of arms by the United States to allies and friendly foreign countries. In initiating this legislation, Congress declared that the ultimate goal of the United States continued to be a world which was free from war and the dangers of arms expansion. Furthermore, United States policy encouraged regional arms control and discouraged arms races. This legislation also shifted emphasis from the Military Assistance Program to Foreign Military Sales.

The expansion of arms sales continued and after the Vietnam War, the U.S. Congress believed that provided arms, unless controlled properly, would lead to further violence and regional wars. Congress, therefore, added additional guidelines and restraints to govern the management of FMS. In 1976, Congress expanded its control over FMS Programs, even though President Ford vetoed legislation aimed at

providing ceilings on all U.S. arms sales abroad. In any case, the level of FMS was effectively limited.

With passage of the 1976 legislation, the following changes emerged: [Ref. 2:p. 17]

- The 1976 Legislation became known as the "International Security Assistance and Arms Export Control Act of 1976".
- Export licenses for all military sales over \$25 million would be required.
- An extension of congressional veto power over proposed FMS sales over \$7 million for major weapons systems and over \$25 million for any other defense articles or sources was added. This veto must occur within 30 calendar days of receipt of the proposed sale.
- Department of Defense (DOD) would have Military Assistance Advisory Groups in various countries around the world to provide advice and assistance to local governments in the purchasing and operation of American arms.

President Carter later became concerned when arms sales had risen to over \$20 billion and the U.S. had accounted for over half of those sales. Based on this fact, he directed a review of the existing arms control policy and all of the associated military, political and economic factors. [Ref. 3:p. II-3]

Carter established an additional set of arms controls:

- A reduction of the dollar volume of FMS and Military Assistance Program. At the end of Fiscal Year 1977, the U.S. had a backlog of undelivered FMS weapons

systems of almost \$36 billion, a year later it was up to \$44 billion.

- The U.S. will not be the first country to introduce newly-developed advanced weapons.
- Development and significant modification of advanced weapons systems will not be permitted for foreign countries.
- There will be a prohibition on coproduction agreements of "significant" weapons in foreign countries.
- Weapon systems cannot be retransferred under any circumstances by the purchasing nation to a third world country.
- U.S. Embassies and Military Representatives abroad will not be allowed to promote arms sales. Department of State policy-level approval was also added.

NATO Countries, Australia and New Zealand, would be exempt from the above restraints. The President's FMS policy was never fully implemented. As a general assessment, Carter's policy of restraint was a failure. Actually, it established functional government procedures for handling arms transfer requests and it decreased requests for arms, but controls were not implemented in a systematic way.

Then, President Reagan established a new policy. His foreign policy was established on four basic points:

- (1) The restoration of U.S. economic and military strength,
- (2) The reinforcement of alliances and the cultivation of new friendships,
- (3) The promotion of progress in developing

countries and, (4) The construction of a new relationship with the Soviet Union characterized by restraint and reciprocity.

The policy changes under President Reagan have not led to significantly higher arms export levels even though ceilings on arms sales were dropped. Moreover, he opened up new dialogues with Central American and South American Countries. Foreign assistance and sales to Europe focused on Turkey, Greece, and Portugal in support of NATO and a U.S. defense agreement with Spain for use of Spanish bases. Turkey also received sizeable financial support in recognition of its continuing economic needs. Asia, Korea, Philippines, Indonesia and Thailand have been scheduled for FMS financing for more modernization programs.

The President's policy recognized that arms transfers could help to deter aggression from neighboring countries. Under this policy, each request for arms is carefully reviewed on a case-by-case basis, primarily in terms of its contribution to deterrence and defense.

## **2. The Place of the U.S. in Arms Sales in the World**

Before 1935, total annual expenditures of all governments for their war requirements were approximately \$4.5 billion. In today's prices, these expenditures might



represent \$40-50 billion. In 1987, approximate total world expenditures were \$930 billion.

This dramatic increase was due to Third World inventory modernization and expansion largely financed by profits from export income, particularly from oil.

From time to time, the United States has fluctuated in its FMS support depending on the administration in power. This fact was demonstrated in this decade. Sales peaked in 1982 at \$22 billion and then dropped sharply, remaining steady since 1986. U.S. defense related sales were only about \$9 billion in 1986. FMS Agreements hit a ten-year low in 1987 (Figure A).

Today the United States Government accounts for 21% of world arms exports. It seems a considerably high percentage. However, arms production outside the United States, especially in Western Europe and developing countries, is increasing both in scope and sophistication. Also, the expansion of arms production in the developing countries since the end of the Second World War has been quite extensive. The world arms transfer sharing is depicted in Figure B. [Ref. 4:p. 412]

### 3. Scope of the United States Security Assistance Program

United States Security Assistance Programs<sup>3</sup> are comprised of seven major divisions:

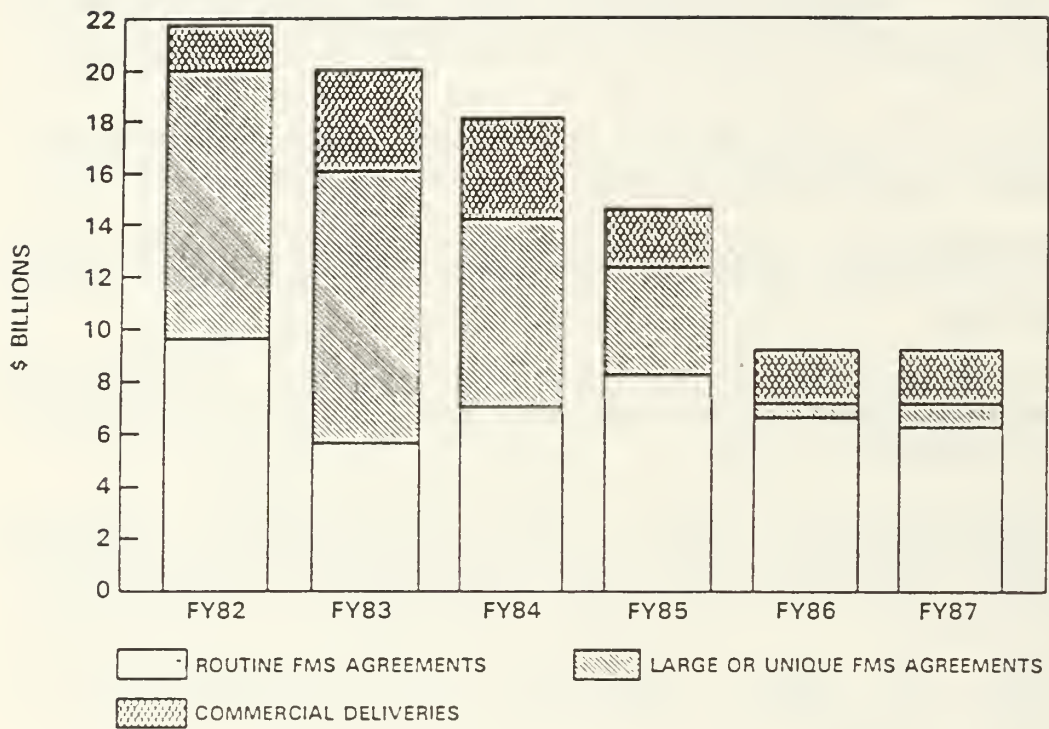
- Military Assistance Program - defense articles provided on a "grant" basis.
- International Military Education and Training Program (IMET) - military education and training aid given in the United States or at overseas facilities on a grant aid basis.
- Economic Support Fund - provides loans for economic support and technical assistance development projects.
- Peacekeeping - operations providing funds for international security forces such as the United Nations.
- Foreign Military Sales Financing Program - credits and loan repayment guarantees are provided for the direct procurement of arms.
- Foreign Military Sales (FMS) and Foreign Military Construction Program - eligible governments purchase defense articles, services and training from the U.S. Government.
- Commercial Sales - sales by U.S. firms directly to foreign buyers.

Foreign Military Sales is one of the most important Security Assistance Programs and will be discussed in Chapter II.

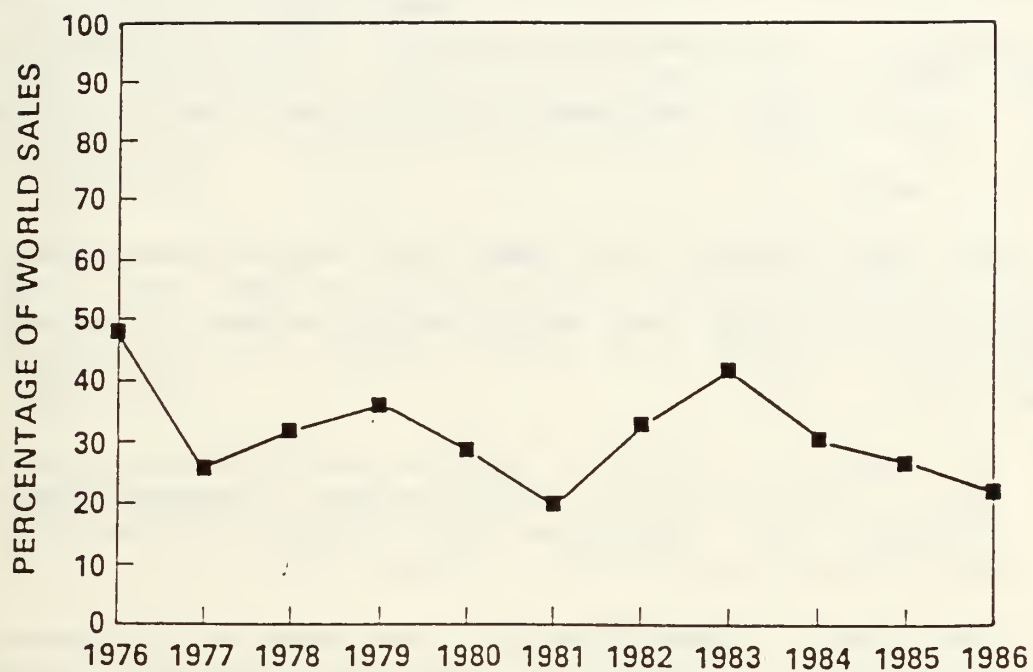
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<sup>3</sup>Security Assistance is a group of programs in which U.S. provides defense articles, military training and other defense related services, by grant, credit or cash sales for allies and friendly countries.





**Figure A. U.S. Military Sales FY 82 - FY 87**



**Figure B. U.S. Sales as Percentage of World Sales  
1976 - 1986**

## II. FOREIGN MILITARY SALES (FMS) DOCTRINES AND PROCEDURE IN THE UNITED STATES

### A. BASIC DOCTRINES

To successfully implement any Foreign Military Sales (FMS), the United States established a group of procedures according to the Government policy. These procedures are set forth in DOD 5105.38M, Military Assistance and Sales Manual (MASM)<sup>4</sup>.

FMS procedures must meet the basic tenets of the Military Assistance and Sales Manual [Ref. 5:part I-4].

These tenets are:

- Any defense article or defense service cannot be sold to any country unless the President finds that the arms transfer will strengthen the security of the U.S. and promote world peace.
- The basic responsibility of foreign countries to determine the nature of their own security interests and the path of their own progress shall be recognized.
- Except for overriding military considerations, the building of military forces which the recipient country cannot ultimately support will be discouraged.
- All sales agreements, arrangements and proposals to provide any defense article or serve will explain

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<sup>4</sup>MASM is a manual published by the Defense Security Assistance Agency under authority of DoD and is the basic source of information and instructions for managing the U.S. military assistance program and FMS programs.

precisely the terms and limits of such commitment as well as the foreign country's obligations upon which such U.S. commitment is predicated.

- DOD Pricing procedures will provide for the charging of all direct and indirect costs. Price quotations will be estimated and final adjustments will take place after delivery of the items or rendering of the services.
- Any defense article or service over \$25 million or major defense equipment over \$7 million to be sold to a foreign country will be made known to Congress before the sale is authorized.
- The availability data will be set forth in FMS cases which have been properly accepted and funded by the purchasing country commitments upon the U.S. Government.
- When procuring for a foreign government, DOD will use the same contract clauses and contract administration as it would use in procuring for itself, except where exceptions are authorized in the Defense Acquisition Regulation.

## **B. PROCEDURES**

There are some general rules to be followed in implementing an FMS case. The following represents the step-by-step procedures that are typically followed, starting from informal customer (foreign country) interest to final case closure.

### **1. Initiation**

There are three basic pre-conditions for initiating an FMS project:

- any country desiring to buy or lease military articles or services, must be eligible, by Presidential approval, for FMS goods and services.
- In addition to the President's approval, other criteria established in the U.S. Arms Export Control Act (AECA)<sup>5</sup> must be met. Some important criteria are:
  - Providing defense articles or services to a foreign government will strengthen the Security of the U.S. and promote world peace.
  - The foreign government will agree not to transfer title of any defense article to a third country.
  - The foreign government will maintain the security of the article to the same level of protection afforded by the U.S.
- The requested article or service must also be on the relevant Military Articles and Service List (MASL)<sup>6</sup>.

The customer country, after meeting the above conditions, becomes eligible and prepares a simple request in the form of a letter to the U.S. (Letter of Request, LOR)<sup>7</sup>. If the eligible country is seeking significant combat equipment, the request originated by the country's

---

<sup>5</sup>AECA is a different title amended from FMS Act of 1968 which explains restrictions and authority of FMS. It is amended each year to be updated.

<sup>6</sup>MASL is a listing of all material, services and training which are available for transfer to eligible foreign countries under the MAP, IMET or FMS programs. MASL is issued quarterly by DSAA.

<sup>7</sup>LOR is a message or letter format used to identify a request from customer country for the purchase of defense articles and services.



Embassy in Washington, D.C. is sent to the U.S. State Department's Bureau of Politico-Military Affairs ("State PM" - Washington) and to the Defense Security Assistance Agency (DSAA)<sup>8</sup>. Figure C depicts the flow of this request.

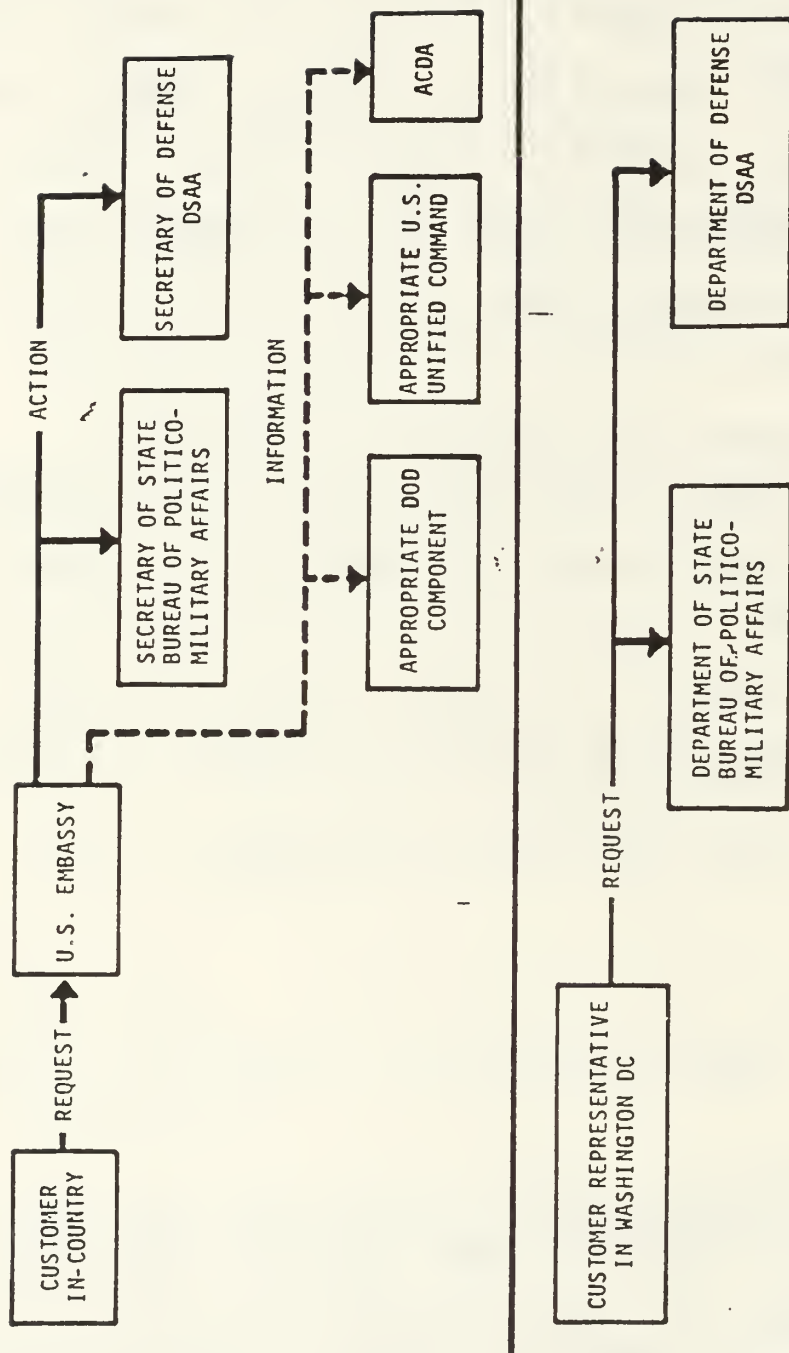
If the request for significant combat equipment comes directly from the purchasing country, the request is first sent through that country's U.S. Embassy, then on to the same department and DSAA. This procedure is depicted in Figure D [Ref. 1:p. 8-3,4].

The request must address the following:

- Why the country needs the military equipment requested
- How it will affect the requesting country's force structure
- What the neighboring country's reaction will be
- The ability of the requesting country to operate and support the equipment
- How the buyer will finance the request.

---

<sup>8</sup>DSAA is a separate agency of the DoD under the direction, authority and control of Assistant Secretary of Defense. Basically, DSAA coordinates and executes security assistance programs, manages the credit financing programs, develops and operates the data processing system, conducts international logistics and sales negotiations, and makes determinations on FMS funds.



**Figure C. Submission of Requests for Significant Combat Equipment (SCE)  
P&R Estimates, P&A Estimates and LOAs**



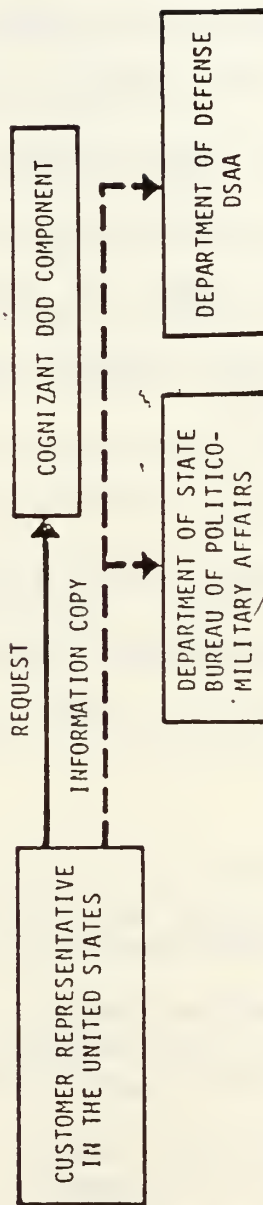
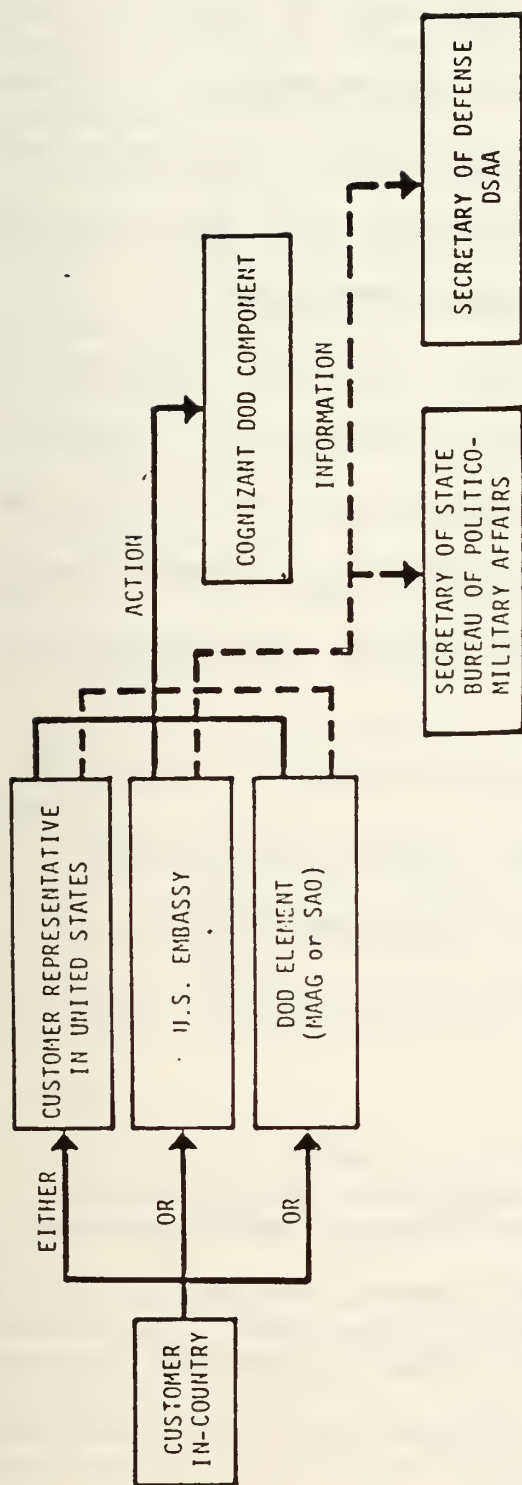


Figure D. Submission of Requests for All Other Foreign Military Sales  
P&R Estimates, P&A Estimates and LOAs

## 2. State Procedure

The "Program Manager" (PM)<sup>9</sup> coordinates the State Department's side of the LOR. The way in which the PM handles the LOR depends on the size of the request. If the request is fairly small, the PM will review it with DSAA and report its findings to regional bureaus and the relevant country desk officer<sup>10</sup> within the State Department.

If the request is large, the PM prepares a Congressional Notification to obtain congressional approval under AECA. Meanwhile the PM continues to work with the Country Desk, Regional Bureau, the Bureau of Human Rights and Humanitarian Affairs and Arms Control and Disarmament Agency (ACDA)<sup>11</sup>.

DSAA is delegated the responsibility of conditions of the request with the Pentagon. Scope and intensity of coordination between Department of State and DOD will vary. If the request is small and comes from a foreign country

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<sup>9</sup>PM is a part of the State Department which advises the Secretary of State on issues related to MAP and FMS programs.

<sup>10</sup>Country Desk Officer is the primary contact point for material support for assigned country in the DSAA. He monitors and coordinates FMS cases more broadly than the program manager.

<sup>11</sup>ACDA evaluates whether the proposed sale will contribute to an arms race, increase the conflict, etc., and is completely separate from the Department of State.

with deep and long-established relations with the U.S., the process is rapid. However, if the request is more complicated and expensive, it requires more paperwork, coordination and review.

The foreign country may request Planning and Review Data (P&R), Price and Availability Data (P&A) or a Letter of Offer and Acceptance (LOA) before determining whether or not to purchase the item or service from the U.S.

P&R Data is preliminary data and availability information used to evaluate the potential of procuring from the U.S. P&R data is provided within 45 days by cognizant DOD components. However, for major combat equipments, DOD components must receive permission from DSAA to provide that data.

P&A Data is specific information about price and availability. It could be used without modification on LOA. P&A Data is provided within 60 days after DSAA receives the request.

LOA is a formal commitment to sell at a specific price and deliver at a specific time. The eligible country may first request P&R and P&A data. After evaluation of the data, the country decides whether or not it wants the weapon

system. At this point, if the country decides to purchase, it requests LOA.

### **3. The LOA Process**

The document used for actual sale transaction is Department of Defense Form 1513 (DD Form 1513). Figure E depicts the formal LOA, DD Form 1513. Basically, it includes the list of the items or services desired, estimated costs, and terms and conditions of the sale. This form is an official government-to-government agreement. When any specific weapon or service is specified and priced, this specification must be defined as a sub-line item on the LOA. This case is named "Defined Order Case". The types of material, services or training normally processed as defined order cases are: System/Package Sales; Munitions, Ammunition and other Explosives; Transportation Services; Aircraft Ferry; Class V Modifications (Air Force); Cartridge Actuated Devices/Propellant Actuated Devices (CAD/PAD); Technical Data Packages.

UNITED STATES DEPARTMENT OF DEFENSE OFFER AND ACCEPTANCE				(1) PURCHASER (Name and Address) (Zip Code)				
(2) PURCHASER'S REFERENCE		(3) CASE IDENTIFIER						
<b>OFFER</b>								
Pursuant to the Arms Export Control Act, the Government of the United States (USG) hereby offers to sell to the above purchaser the defense articles and defense services listed below (hereinafter referred to collectively as "items" and individually as "defense articles" or "defense services"), subject to the terms contained herein and conditions set forth in Annex A, and to such other special terms and conditions which may be a part of, and appended to, this Offer and Acceptance.								
(4) _____ Signature (US Dept./Agency Authorized Representative)				(9) _____ Countersignature (Office of the Comptroller, DSAA) (Date)				
(5) _____ Typed Name and Title				(10) _____ Typed Name and Title				
(6) ADDRESS _____				(11) DSAA ACCOUNTING ACTIVITY _____				
(7) DATE _____								
(8) THIS OFFER EXPIRES _____								
NOTE: This offer must be accepted not later than the date shown in block 8. Within five (5) days of its acceptance, you must notify the Office of the Comptroller, DSAA. Otherwise, this Offer is cancelled and retention of initial deposit by offerer pending disposition instructions shall not be deemed a waiver of such cancellation. Request prompt notification if this offer is rejected.								
ITEM OR REF NO (12)	ITEM DESCRIPTION (Including Item Number if appropriate) (13)	QUANTITY (14)	UNIT OF ISSUE (15)	ESTIMATED		AVAILABILITY AND REMARKS (16)	OFFER RELEASE CODE (17)	DELIVERY TERM CODE (18)
				UNIT COST (19)	TOTAL COST (20)			
(21) ESTIMATED COST				\$				
(22) ESTIMATED PACKING, CRATING, AND HANDLING COST				\$				
(23) ESTIMATED GENERAL ADMINISTRATIVE COSTS				\$				
(24) ESTIMATED CHARGES FOR SUPPLY SUPPORT ARRANGEMENT				\$				
(25) OTHER ESTIMATED COSTS (Specify)				\$				
(26) ESTIMATED TOTAL COSTS				\$				
(27) TERMS				(28) AMOUNT OF INITIAL DEPOSIT - \$				
<b>ACCEPTANCE</b>								
(29) I am a duly authorized representative of the Government of _____ and upon behalf of _____				(33) MARK FOR CODE _____				
said Government, accept this offer under the terms and conditions contained herein (30) this _____ day of _____, 19____				(34) FREIGHT FORWARDER CODE _____				
				(35) PROCURING AGENCY _____				
(31) _____ SIGNATURE				(36) DESIGNATED PAYING OFFICE _____				
(32) _____ TYPED NAME AND TITLE				(37) ADDRESS OF DESIGNATED PAYING OFFICE _____				

**Figure E. LOA: DD Form 1513, the Actual Letter of Offer and Acceptance**



When there is no definition of items or quantities, this case is referred to as "Blanket Order Case". Mostly, spares and repair parts, unclassified publications, support equipments, minor modifications, training, repairables, technical assistance, etc., are included in a "blanket order case" [Ref. 5:p. I-7].

If the situation allows the foreign country to draw spares and repair parts at the depot level from the U.S. stocks during peacetime, the case is called "Cooperative Logistic Supply Support Arrangements" [Ref. 5:p. I-8].

The LOA is prepared in no more than 60 days. Preparation is done by the implementing services of the DOD. Implementing services are: Army - Material Readiness Command; Navy - Security Assistance division (OP63) of the Chief of Naval Operations (CNO); Air Force - The Air Staff Directorate of International Programs (AF/PAI).

When the LOA is prepared, the relevant service should itemize the articles or services and write all sufficient detailed information (including initial logistic support) by using explanatory notes.

The price of equipment or services on the LOA are estimates. Recipient country must agree that the price on the LOA are estimates. If actual costs exceed the



estimates, payment is made according to the actual costs. However, price changes greater than 10% without change in scope require a "Notice of Modification of Offer and Acceptance" (DD Form 1513-2). If there are minor changes in scope, it requires an "Amendment" to the Offer and Acceptance (DD Form 1513-1). If the changes of scope are major, then it requires a new LOA.

All LOAs need a review process by the different cognizant offices. The DSAA Operations Directorate (DSAA/OPS) is the main coordinator for any FMS action. Prior to submission to the DSAA Comptroller for countersignature, all LOAs for significant combat equipment must be reviewed and approved by the DSAA/OPS. Other LOAs falling within the following categories should be submitted to the DSAA:

- A sale value of \$10 million or more
- A sale for which payment is from MAP
- Items or services not standard in the DOD inventory
- A nonrecurring cost surcharge as an element of cost of the items
- Items involving sale of technical data
- Agent's fee included in the offer
- Data which would result in the establishment of a foreign production capability for an item

- Any offer which quotes firm prices for equipment to be supplied from DOD stocks
- A sale for special defense acquisition fund assets

After DSAA/OPS has approved the LOA, Department of State is responsible for the approval of proposed sales before notification to Congress. The Department of State authorizes the DSAA to provide Congress with 20-day advance notification of the sale. This notification is informal and not required for NATO countries, Australia, Japan or New Zealand. After the 20-day period is over, DSAA submits the formal 30-day notification (15-day for NATO countries) to Congress. In the meantime the customer country is provided a "courtesy" copy of the unsigned LOA. Although this action is not an official offer without Congressional approval, it's used as an informational document.

Once the LOA has received DSAA/OPS and Congressional Review Approval, the DOD cognizant component forwards the DD Form 1513 to the DSAA Comptroller and the DSAA FMS Control Division. At this point, the DSAA Comptroller enters appropriate financial data extracts into the DSAA FMS Data Base and "countersigns" the DD Form 1513 within 15 calendar days. During the "countersignature" process, DSAA FMS Control Division coordinates the DD Form 1513 for final SAA policy and technical review.

After DSAA's last review and approval, the cognizant DOD component releases the LOA to the purchasing country. If the foreign government finds the offer acceptable, the acceptance portion of DD 1513 Form must be completed and signed by the purchasing government. Then, it forwards the copies to the relevant Military Departments (MILDEP) and Security Assistance Accounting Administration Department (SAAC). Cognizant MILDEPs are: Army - U.S. Army Security Assistance Center, Navy - Office of the Chief of Naval Operations OP-63, Air Force - USAF Air Staff (PAI) and Air Force Logistics Command International Logistics Center.

After the LOA is signed and sealed, it is ready for delivery. The procurement and logistics aspects of delivery are complex. The basic procurement and complexity varies depending on the item, but it is handled in the same way as regular U.S. Government procurement. The items may be procured from new production or taken from U.S. Government stocks. When all is finally delivered, billed, and paid, SAAC issues a "Final Statement" and the FMS case is closed.

Generally, implementation time of the activities varies according to the size and complexity of each FMS case. In fact, a regular FMS case takes from 128 days up to

272 days. Figure F shows the number of days normally required for case development and implementation [Ref. 5:p. I-17].

ACTIVITIES	DAYS
Receipt and Review of Request	2 - 3
Development of P&A Data	30 - 75
Preparation of LOA	3 - 5
Coordination and Staffing of LOA	14 - 25
Formal Congressional Notice	30 - 45
Counter Signing	5 - 14
Foreign Country Acceptance	30 - 60
Authorization of Funds	<u>14 - 45</u>
<b>TOTAL APPROXIMATE DAYS</b>	<b>128 - 272</b>

**Figure F. Regular FMS Case Implementation Schedule**

### **III. PREPARATION OF LETTER OF OFFER AND ACCEPTANCE (LOA) AND PRICING AND BILLING SYSTEM**

#### **A. LOA PREPARATION**

As introduced in Chapter II, an LOA is prepared by the offices designated by the implementing service. Its preparation is processed in accordance with the Military Articles Sales Manual (MASM). Specific information on how to fill out the LOA (DD Form 1513) is provided as Appendix A. The DD Form 1513 and its enclosures must provide detailed information, which varies according to the nature of the sale. A preprinted explanation of "General Conditions" for each sale is provided in Appendix B. However, Appendix B may be supplemented with additional information as required [Ref. 6].

#### **B. FOREIGN MILITARY SALES (FMS) PRICING SYSTEM**

##### **1. General**

The prices included on a DD Form 1513 are estimates of the expected costs of the articles and services. These estimated costs are developed using cost analysis techniques. The prices used in the billing system are the actual costs of articles and services delivered to the purchaser. Occasionally the exact final cost may not be



determined until the total contact is complete. At this time, it is possible that estimates can be used in the billing system and subsequently replaced when the actual cost is determined. Components of FMS price are the same for either DD Form 1513 or for the billing system.

Assistance Secretary of Defense (Comptroller, ASDC)<sup>12</sup> is responsible for establishing the policy and procedures involving pricing.

## **2. FMS Pricing Elements**

FMS pricing elements can be combined into two major categories: Base Costs and Authorized Surcharges.

### **a. Base Cost**

Base Cost is the cost of the basic article (hardware) or service sold under the terms of the DD Form 1513. Base cost is a portion of the unit cost reflected in Block 16.

### **b. Authorized Surcharges**

Authorized Surcharges are named as Add-on cost and reflected both in Block 16, as a portion of the unit cost and in Blocks 22 through 25. Location of costs is illustrated in Figure G.

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<sup>12</sup>ASD(C) is not only responsible for pricing, but also for fiscal matters, accounting, auditing and international balance of payments relevant to security assistance.

<u>COST CATEGORY</u>	<u>Blocks 16, 17, &amp; 21</u>	<u>Blocks 22 - 25</u>
Base or basic cost (e.g., materiel acquisition cost/standard catalog price, DoD salaries/allowances for personal services FMS cases, etc.)	Yes	No
Nonrecurring RDT&E/production costs	Yes	No
Contract administration on new procurement (1.5%)	Yes	No
Asset Use (4%)/rental charge for government owned facilities	Yes	No
Attrition (Damage) for FMS Training	Yes	No
Government Furnished Equipment (GFE), including associated PCH, DTS costs, asset use (1%), etc.	Yes	No
Stock Acquisition or Replacement Surcharge	Yes	No
Procurement appropriation account secondary item replacement factor	Yes	No
Packing, crating and handling (PCH)	No*	Yes (Block 22)
General Administrative Costs	No	Yes (Block 23)
Supply Support Arrangement Charges (3-5%)	No	Yes (Block 24)
Defense Transportation System (DTS) Costs	No*	Yes (Block 25)
Asset Use (1% for Inventory Issues)	No*	Yes (Block 25)
Storage Costs	No	Yes (Block 25)
Estimated Total Costs	Aggregated in Block 26	Aggregated in Block 26

\* except FGE

**Figure G. Location of Costs on DD Form 1513**

### **3. How to Calculate Price of New Procurement**

The basic policies for new procurement are as follows:

- Defense articles procured for direct delivery are priced to recover full contract cost plus applicable surcharges.
- Cost principles utilized are the same as those used in pricing defense contracts covering items for DOD use.
- Cost of deviations from U.S. Government configuration and special technical data desired by a foreign government is included as an additional charge to the purchaser.
- If the sale is diverted from the delivery schedules and replaced by later production, the price is the current production cost or replacement production cost, whichever is higher.

An example of computation for new procurement is illustrated in Figure H.

### **C. FMS BILLING SYSTEM**

#### **1. General**

FMS billing policies and procedures complying with the Arms Export Control Act (AECA) are defined and expressed in the Foreign Military Sales Management Manual (DOD 7290.3-M), in the Security Assistance Management Manual (SAMM), and in Annex A (General Conditions).

Contract Price	XXX
Plus other costs:	
Asset Use Charge/rental	XXX
Research, Development, Test and Evaluation (RDT&E)	XXX
Nonrecurring Administration Costs	XXX
Contract Administration Costs	XXX
Government Furnished Property, Equipment, Material, (GFM/GFE) if any	<u>XXX</u>
UNIT COST	XXX
TOTAL MATERIAL COST: Unit cost x Quantity	XXX
Packing, Crating, and Handling Cost, if applicable	XXX
General Administrative Costs	XXX
Other Estimated Costs	<u>XXX</u>
TOTAL ESTIMATED COST	XXX

**Figure H. Sample Price Computation of New Procurement**

Security Assistance Accounting Center (SAAC) is the Executive Agent for managing the DOD centralized billing, collecting and trust fund accounting system for security assistance. SAAC issues quarterly billing statements (DD Form 645) to the FMS customer based on payment schedules attached to the LOA. SAAC bills for costs related to articles sold. To prepare a proper bill for a given FMS case, SAAC must be informed by the implementing agencies by being sent a copy of LOA.

It is DOD policy that FMS customers be required to pay amounts reflected in the Financial Annex. The purpose of the Financial Annex is to supplement terms in Paragraph B of Annex A to the DD Form 1513. The Financial Annex is prepared by Implementing Agencies.

Payment schedules are regarded as a formal presentation to the purchaser of the estimates of cash requirements. Payment schedules consist of an initial deposit and estimated quarterly billing amounts. Implementing Agencies are expected to closely monitor the accuracy of payment schedules on all cases to insure that cash is available when the necessity for disbursement arises.

## **2. Cash Accounting Procedures**

### **a. FMS Trust Fund**

The FMS trust fund is a fund credited with receipts which are earmarked by law and held in trust or in a fiduciary capacity by the U.S. Government for use in accomplishing specific purposes and programs. The SAAC is responsible for management of the FMS trust fund.

Customer country's initial deposits are made in advance of delivery, performance or progress payments to contractors. Initial deposits or regular payments are forwarded by wire transfer or check to the SAAC. The SAAC exercises stringent controls over the FMS trust fund to insure proper visibility and accountability are maintained for all payments made by a customer for each FMS case.

The main principles of the trust fund are: one customer's trust fund balance cannot be used to finance another customer's programs; cash deposits are used to pay U.S. military departments for costs related to country's case, but the accounting is maintained and reported on each individual case; dollars received into the FMS fund are subject to U.S. Treasury accounting system controls from date of receipt to date of expenditure or refund. The SAAC



sends periodic reports to the U.S. Treasury and performs a monthly reconciliation of balances.

**b. FMS Customer Funds**

Depending on U.S. Government requests for payments, the customer responds by providing the necessary funds. The customer may make payments in U.S. dollars directly to the SAAC or arrange credit financing through the U.S. Government. There are two types of FMS credit programs: DOD Guaranteed Loans - under this loan concept, DOD submits a guarantee to the Federal Financing Bank which is responsible for signing the agreement with customer country; DOD Direct Loans - the source of funding to finance this program is funds appropriated by Congress. The credit agreement is between the borrowing country and DSAA.

**c. Crossleveling**

Crossleveling is an accounting technique by which the SAAC transfers funds from one case to another case. The excess funds on a case that has been closed may be transferred to other open cases; therefore, it reduces the amount due on the bill. A written agreement must be arranged between the SAAC and the customer to perform crossleveling [Ref. 8].

### 3. Documentation Used for Billing Cycle

#### a. FMS Billing Statement (DD Form 645)

This form is the basic billing document, prepared by the SAAC at the end of each calendar quarter. It represents the official claim for payment by the U.S. Government. In addition, it furnishes an accounting to the FMS purchaser for all costs incurred under each agreement. Figure I shows an example of DD Form 645.

Billing statements are forwarded to the customer country on a quarterly basis after the SAAC's preparation. The billing cycle is essentially as follows:

Period Ending	DD 645 Mailed	Payment Due at SAAC	Forecast Quarter
31 Mar	15 Apr	15 Jun	Jul-Sep
30 Jun	15 Jul	15 Sep	Oct-Dec
30 Sep	15 Oct	15 Dec	Jan-Mar
31 Dec	15 Jan	15 Mar	Apr-Jun

Essentially, the DD Form 645 provides current period delivery costs, cumulative delivery costs, and work in process costs. The bill normally requests monies to cover the planned deliveries for the forecast quarter.

FOREIGN MILITARY SALES BILLING STATEMENT				UNITED STATES OF AMERICA DEPARTMENT OF DEFENSE/ARMY					
1. TO: TURKEY ARMY		2. THIS IS A BILLING STATEMENT BASED ON CASH REQUIREMENTS. PAYMENT IS DUE BY: 09 MAR 15		3. STATEMENT NUMBER: 08-12HA		4. FOR PERIOD ENDED: 08 DEC 31		5. DATE PREPARED: 09 JAN 10	
CASE IDENTIFICATION AND DELIVERY STATUS				FINANCIAL STATUS					
6. CASE & RS#	7. TOTAL VALUE ORDERED	8. CUMULATIVE DELIVERY COSTS END PRIOR PERIOD	9. CURRENT PERIOD DELIVERY COSTS (ATTACHMENT 1)	10. CUMULATIVE DELIVERY COSTS WORK IN PROCESS	11. FORECASTED REQUIREMENTS (NOTE A)	12. TOTAL FINANCIAL REQUIREMENTS	13. CUMULATIVE PAYMENTS RECEIVED	14. AMOUNT DUE AND PAYABLE	
USV									
001	79,569,360.00	29,044,892.65	29,910,086.76	58,954,927.41					
	OTHER FIRE CONTROL	EQP							
002	23,527,038.00	5,375,706.43	6,652,999.30	16,028,703.73					
	OTHER FIRE CONTROL	EQP							
003	0,006,331.00	4,167,200.46	746,133.87	3,423,166.59					
	OTHER FIRE CONTROL	EQP							
004	42,165.00	42,362.41		42,362.41					
	WEAPON SPARE PARTS								
005	21,990,960.00	14,661,990.15	6,633,338.04	21,275,328.19					
	OTHER FIRE CONTROL	EQP							
006	26,677,530.00	5,963,069.36	6,210,936.83	14,174,006.19					
	OTHER FIRE CONTROL	EQP							
007	276,147.00								
	TRAINING								
008	2,304.00	2,122.00		2,122.00					
	ARMY BOOKS/PURS/OT	IER							
009	8,100,107.00		1,498,504.81	1,498,504.81					
	OTHER FIRE CONTROL	EQP							
010	16,192,560.00	136,465.33	1,316,870.45	1,451,335.78					
	OTHER FIRE CONTROL	EQP							
011	200,000.00								
	OTHER TECH ASSISTANCE	NCE							
012	13,255,000.00								
	OTHER TECH ASSISTANCE	NCE							
013	247,950.00								
	BASE SERVICES SUPP	ORT							
015	440,234.00	39,949.68		39,949.68					
	OTHER FIRE CONTROL	EQP							
016	268,704.00	276,501.68		276,501.68					
	OTHER FIRE CONTROL	EQP							
017	13,500.00								
	OTHER FIRE CONTROL	EQP							
018	253,500.00								
	OTHER FIRE CONTROL	EQP							
019	126,000.00								
	BASE SERVICES SUPP	ORT							
020	299,000.00								
	BASE SERVICES SUPP	ORT							

Figure I. DD Form 645

FOREIGN MILITARY SALES BILLING STATEMENT				UNITED STATES OF AMERICA DEPARTMENT OF DEFENSE/ARMY				
1. TO: TURKEY ARMY		2. THIS IS A BILLING STATEMENT BASED ON CASIL REQUIREMENTS. PAYMENT IS DUE BY: 09 MAR 15			3. STATEMENT NUMBER: 00-12NA	4. FOR PERIOD ENDED: 08 DEC 51	5. DATE PREPARED: 09 JAN 10	
CASE IDENTIFICATION AND DELIVERY STATUS				FINANCIAL STATUS				
6. CASE & RSN	7. TOTAL VALUE ORDERED	8. CUMULATIVE DELIVERY COSTS END PRIOR PERIOD	9. CURRENT PERIOD DELIVERY COSTS (ATTACHMENT 1)	10. CUMULATIVE DELIVERY COSTS & WORK IN PROCESS	11. FORECASTED REQUIREMENTS (NOTE A)	12. TOTAL FINANCIAL REQUIREMENTS	13. CUMULATIVE PAYMENTS RECEIVED	14. AMOUNT DUE AND PAYABLE
USV								
021	653,500.00							
	TECH ASSIST FLO-TE							
	(MHTAFT)							
022	37,906.00							
	OTHER FIRE CONTROL							
023	120,019.00		299.96	299.96				
	OTHER FIRE CONTROL							
024	7,676.00			3,943.00				
	OTHER COM-ELECTRON							
025	2,665,500.00							
	NON-SPECIFIC REQUI							
026	33,375.00							
	OTHER FIRE CONTROL							
L6A	8,036,301.00	2,319,536.74	2,190,530.00	4,510,066.74				
	ADMINISTRATIVE FEE							
L00	1,902.00	19,949.83		19,949.83				
P/P	ACCESSORIAL COSTS			89,900,758.00				
CASE	PROGRESS PAYMENTS			209,601,966.00				
TOTAL	210,833,421.00	62,033,697.72	57,667,510.28		747,069.00	210,349,035.00		210,349,035.00
UTF								
001	3,445.00	471.00	1,759.08	2,230.08				
	TECHNICAL DATA PAC							
L6A	104.00	14.13	52.77	66.90				
	ADMINISTRATIVE FEE							
L00	251.00	21.20	79.16	100.36				
P/P	ACCESSORIAL COSTS			18.55				
CASE	PROGRESS PAYMENTS			2,415.89				
TOTAL	3,800.00	506.33	1,891.01		1,384.11	3,800.00	3,800.00	

Figure I (continued)

**b. FMS Delivery Listing**

The FMS Delivery Listing provides delivery information by case and by line number. Detailed information relevant to articles transactions, administrative/accessorial transactions and a summary of delivery costs for each line is also provided.

The FMS Delivery Listing is reported to the SAAC as a computer printout by the implementing agency. It is distributed on a quarterly basis.

**c. FMS Reply Listing to Customer Requests for Adjustments**

This is a computer printout which reflects all transactions relating to the final action taken with respect to any Reports of Discrepancy. The Reply Listing is prepared quarterly along with the DD Form 645 and is in the same basic sequence as the Billing Statement and the FMS Delivery Listing.

**d. FMS Financial Forecast**

The FMS Financial Forecast is provided only if the FMS customer requests. It is prepared to show the anticipated forecast amounts which will be eventually posted to Column 11 of the DD Form 645. It essentially portrays the same information as the DD 645 and reflects future



forecast amounts of payments due, by quarter, for the next nineteen quarters of an FMS case.

#### **●. Holding Accounting Statement**

The holding account concept provides a simplified method for the accounting of funds awaiting instructions. This is a sub-account of monies not identified with a specific FMS case. The customer may request the SAAC to "draw upon" its holding account for transfers to specific cases as the need arises. The Holding Account Statement is not shown in the DD Form 645. It is considered an off-line billing statement.

#### **4. FMS Case Closure**

Case closure is accomplished once all necessary implementation actions have been completed. An FMS case is considered closed when all material has been delivered, the implementing agency has certified the final delivered cost, all financial transactions have been completed and the customer has received a Final Statement of Account.

After all processing, SAAC confirms closure data to the implementing agency to ensure that records are logistically and financially complete. Closed cases are identified by an asterisk on the DD Form 645 and a separate case closure document is printed for distribution to appropriate parties.



(Dollars in Thousands)

	<u>FY 89</u>	<u>FY 90 (proposed)</u>
Concessional FMSCR <sup>13</sup>	\$90,000	0
Forgiven/Grant	340,750	\$550,000
Military Assistance Program	69,250	0
Economic Support Fund	60,000	60,000
IMET	3,400	<u>3,500</u>
<b>TOTAL</b>	<b>563,400</b>	<b>613,500</b>

For FY 89, total FMS Credit and MAP fund (\$500 million) has been allocated to every service according to agreements with Turkish Services during reconciliation meetings:

Turkish Land Forces Command (TLFC)	\$133,100
Turkish Air Forces Command (TAFC)	323,000
Turkish Naval Forces Command (TN)	43,000
Turkish Gendarmerie Services (TGS)	<u>400</u>
<b>TOTAL</b>	<b>\$500,000</b>

## C. TURKEY TANK MODERNIZATION PROGRAM

### 1. General

Turkey Tank Modernization Program is one of the objectives of global Military Modernization of Turkey.

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<sup>13</sup>Concessional FMS Credit is thought of as FMS direct credit with reduced rates of interest. Current interest rate is 5%.

Today, 20% of total Military Assistance provided by the U.S. Government is being used for the conversion program to convert M48A-1 to M48A-5.

The Turkish Tank Program began in 1979 and it is still in progress. For this program, DSAA Country Desk Officer is responsible for implementing the procedure and coordinating the cases related with all offices. U.S. Army Material Command, Europe Directorate, Country Desk Office (PROGRAM/CASE MANAGER) serves as the central point of contact for matters related with cases, and coordinates more detailed audit cases. U.S. Army Armament, Munitions and Chemical Command, Country Manager prepares the LOAs (DD Form 1513) through coordination with Comptroller, Procurement and Production Directorates.

## **2. Initiation**

In April 1979, Turkish Land Forces Command (TLFC) requested Price and Availability Data (P&A) for various quantities of M48A5 conversion kits. A lease of one prototype M48A5 tank was authorized and the tank was shipped to Turkey in 1980. One conversion kit was also shipped and subsequently installed on a Turkish M48A1. The purpose of these activities was to train technicians, support configuration studies, and determine sources [Ref. 11].

Consequently, a technical data package covering the conversion effort was provided TLFC in June 1980. Procurement started immediately for kits supporting the conversion program. From that time on, many individual cases have started. As of February 1989, a majority of them have been completed, and the remainder are continuing. Figure J indicates cases' definition and their current implementation situation [Ref. 12].

The term "conversion kit" has long since lost its meaning when applied to the Turkish Tank Modernization Program. Conversion kits are composed of a number of subkits (up to 57 for a normal tank). The United States Government agreed to allow Turkey to delete entire subkits from U.S. procurement as in-country production capability developed.

While other cases continued according to the schedule, the case TK-B-USV, Fire Control Upgrade Components, developed of a problem with funding. This case is the longest, latest and the most expensive of all. Estimated case value is now \$210 million with accrued costs of \$177 million against FMS Credit reserve of \$82 million. DSAA has approved the continuation of the fire upgrade program by authorizing an additional \$100 million in

<u>CASE IDENTIFIER</u>	<u>IMPL FY</u>	<u>SOURCE OF SUPPLY</u>	<u>ITEM DESCRIPTION</u>
TK-B-UNC	82	P	M48A5 TANK CONVERSION KITS
TK-B-UND	82	P	M48A1 CONVERSION KITS
TK-B-UNE	82	S	SUPPORT - TECHNICAL
TK-B-UPI	83	P	M48A5 TANK CONVERSION KITS
TK-B-UQH	83	P	M48A5 TANK CONVERSION KITS
TK-B-UQI	83	P	M48A5 TANK CONVERSION KITS
TK-B-URL	84	P	TANK CONVERSION KITS
TK-B-URT	85	S	MORTALITY PARTS CASE
TK-B-USQ	86	P	CONVERSION KITS
TK-B-USV	86	P	FIRE CONTROL UPGRADE COMPONENTS
TK-B-UTX	87	S	FY 88 TANK PROGRAM MANAGEMENT
TK-B-UUF	88	P	APPLIQUE/REACTIVE ARMOR

Completed cases: TK-B-UND, TK-B-UNE, TK-B-UPI, TK-B-UQH

**FIGURE J. TANK MODERNIZATION PROGRAM CASE DESCRIPTION**

dependable undertaking funding. When it is known when it will be submitted to Congress by the DSAA, U.S. Army Security Affairs Command (USASAC) is allowed to release unsigned copies of the case.

### **3. Review of the Case TK-B-USV**

Based upon Turkish Land Forces Command (TLFC) request in November 1985, the LOA (DD Form 1513) has been prepared by the implementing agency and the case was named TK-B-USV. Appendix B shows the copy of the LOA. The representative of the Turkish Government was the Turkish Embassy, Defense Attache. It was signed for both countersignature and acceptance January 13, 1986 and implemented January 14, 1986. Main items covered in this case are: [Ref. 13]

- Tank Thermal Sight for M48A5T1 Tank Fire Control System Minus Rear Cover and Mount
- Special Kit of Items to Support the Tank Thermal Sight in the M48A5T1 Tank
- Fire Control Power Box Kit
- Gunners Handle Modification Kit
- Miscellaneous Parts
- Solid State Ballistic Computer
- Add on Stabilization System for the M48A5T1
- On-the-Job Training for Test Equipment
- Laser Range Finder

- Technical Assistance from Anniston Army Depot
- Field Service Representatives from Prime Contractor
- Manuals for Add-On Stabilization System
- Spare Parts Kit for Hardware
- Spare Parts
- Field Test Set
- Memory Program Unit
- Consumables for 1 year
- Spares for Test Equipment
- Technical Services Support for Site Setup
- Operating and Maintenance Manuals
- Program Management Team
- Sensor, Crosswind
- Spares and Test Equipment
- Imager, Optical
- Visual Collimator Assembly
- Emergency Resupply
- Gunner's Sight

Although the basic case originally was implemented January 14, 1986, during the continuation it was modified once and amended five times. These changes are the result of revising unit costs, the Turkish Tank Program Review, price increases or decreases, etc. Consequently, estimated



total cost changed drastically. According to the changes, the cost affect is as follows:

<u>Case Name</u>	<u>Previous Cost</u>	<u>Revised Cost</u>	<u>Implemented</u>
<b>Basic Case USV</b>	<b>\$139,501,770</b>	<b>Original</b>	<b>14 Jan 1986</b>
Modification	139,501,770	\$131,795,860	29 Apr 1986
Amendment #1	131,795,860	161,696,065	26 Jun 1986
Amendment #2	161,696,065	201,132,851	26 Sep 1986
Amendment #3	201,132,851	210,834,437	12 Aug 1987
Amendment #4	210,834,437	210,833,421	04 Apr 1988
Amendment #5	210,833,421	210,852,940	continuing

Amendment #5 was prepared Feb 6, 1989, countersigned Feb 17, 1989, expiration date May 17, 1989. It is still in the phase of acceptance, and has not yet been signed for acceptance.

#### **4. Financial Status of Turkish Tank Modernization Program**

Turkish Tank Modernization Program case values, accrued costs and reserved amount for every case is shown in Figure K.

Total Tank Modernization Program is \$674,742,907 (except last modification in case TK-B-USV, needed an additional \$100 million). According to case values,

Dependable Undertaking Funding Program allocated into years since FY 82 is as follows: [Ref. 11]

<u>FISCAL YEAR</u>	<u>APPROVED DU FUNDING LEVELS</u>
1982	\$29,800,000
1983	34,700,000
1984	43,800,000
1985	54,200,000
1986	109,800,000
1987	69,400,000
1988	105,400,000
1989	105,000,000
1990	89,900,000
1991	<u>45,000,000</u>
<b>TOTAL</b>	<b>\$686,000,000</b>

CASE AMOUNT ID	CASE VALUE	ACCRUED COSTS (EXPENDITURES) TO DATE	MAP/FMSCR RESERVED (INCL FY 89)
TK-B-UNC	\$44,808,386	\$43,376,401	\$44,808,386
TK-B-UND	53,826,187	53,002,726	53,826,187
TK-B-UNE	13,973,691	12,061,986	13,973,691
TK-B-UPI	121,503,666	120,349,003	121,503,666
TK-B-UQH	12,029,646	11,686,283	12,029,646
TK-B-UQI	102,180,858	101,950,778	102,180,858
TK-B-URL	95,462,883	95,103,206	95,462,883
TK-B-URT	13,140,322	10,496,717	13,140,322
TK-B-USQ	6,758,232	982,682	6,758,232
TK-B-USV	210,833,421	177,312,404	82,460,291
TK-B-UTX	180,844	103,509	180,844
TK-B-UUF	44,771	8,426	44,771
<b>TOTALS</b>	<b>\$674,742,907</b>	<b>\$626,434,121</b>	<b>\$546,369,777</b>

**Figure K. Turkey Tank Modernization Program Case Values**

FY 91, the 45 million dollar value is an estimate and will be revised to equate whatever the final amount is necessary to complete the program. Detailed supplementary financial terms and conditions for case TK-B-USV (Fire Control Upgrade Components) are explained in Appendix C.

#### **5. Special Billing Procedures for Turkey**

A Special billing procedure has been developed for Turkey which is designed to transfer into the Trust Fund only those funds which are needed to finance monthly working capital requirements. This procedure has proven advantageous to Turkish cash flow requirements. The September 86 DD 645 cited as the amount due \$800 million; yet on the basis of the special bill, no funds were requested in credit drawdown letters from the Turkish Government.

The concept behind the special procedures for Turkey is that for credit cases, only amounts required for working capital are drawdown for termination liability and contractor holdback. The amount for these reserve funds is committed to the Turkish program, but not transferred into the Trust Fund, thus avoiding the interest charge.

In practice the special billing procedure works as follows:

A DD Form 645 is sent to the Turkish Government by the SAAC. By separate correspondence, the Turkish Government is informed of the amount due on the basis of the special billing procedure. To determine the special bill, the SAAC performs the steps outlined below.

Each quarter the SAAC conducts a case-by-case analysis of all Turkish credit cases. For each of these cases, the total amount due is reduced by the amounts required for Termination Liability and Contractor Holdback.

The total amount due is then divided into three equal amounts which are the monthly drawdowns Turkey must make on its FMS credit. This procedure defers interest on FMS credit since the entire amount for the quarter could be requested.

Turkey then prepares three separate drawdown letters in which it requests that the Federal Financing Bank (FFB) transfer these amounts to the FMS Trust Fund. A separate FMS credit drawdown letter for Termination Liability and Contractor Holdback is provided by Turkey for commitment against the Turkish program, but is not drawdown into the Trust Fund [Ref. 8].

## V. CONCLUSION

Any country may choose where it will purchase goods and services. If the purchase involves the United States, however, there are limits, restrictions and procedures that must be followed. These constraints are part of U.S. law and are executed by various organizations such as The Defense Security Assistance Agency (DSAA) and the Department of Defense (DOD). For example, items may be purchased directly from contractors in a commercial sale or, when Foreign Military Sales (FMS) funds are involved, a government-to-government purchase is required. If the FMS is financed by Military Assistance Program (MAP) funds in accordance with the Arms Export Control Act (AECA), it may not legally use the funds for either

- funding direct commercial purchases or,
- financing interest or repayments of principal or guarantee fees with respect to Federal Financing Bank loans. [Ref. 5]

Restrictions such as these are designed to protect the interests of the United States. Since the U.S. is a leading and reliable supplier of modern goods and services, countries have complied with those restrictions. Today,



many developing countries tend to use FMS credit funds which must be paid back to the U.S. with interest. However, as balance of payments debts, budget deficits, and inflation continues, purchasing countries must carefully review the costs associated with all military sales. The following conclusions and recommendations are provided as a result of analyzing Foreign Military Sales (FMS) procedures in the United States.

**1. Conclusion:** Current FMS program policies interposition the U.S. government between industry and the purchasing country. Because of a lack of direct access and communication with contractors, the purchasing country has difficulty in monitoring a purchase, as well as keeping abreast of developments in the industry.

**Recommendation:** Permit direct access by purchasing from U.S. firms. This access could be limited and monitored by the U.S. government in order to ensure that sales conform to the requirements of U.S. law. Ongoing discussions between purchasing countries and U.S. suppliers will result in fewer discrepancies in product specifications, costs, and delivery schedules. Participation by purchasing countries in contract negotiations with U.S. firms is also recommended. It would enhance the relationship between both

governments by demonstrating a commitment on the part of the U.S. and industry to fair and open dealing, while, at the same time, enabling the purchasing country to provide input to the negotiations, rather than correcting problems after-the-fact.

**2. Conclusion:** According to the Arms Export Control Act (AECA), DOD is required to manage the FMS program on a no-cost basis. Therefore, DOD financial policies and procedures for pricing defense materials and services, administering FMS cases, reporting deliveries of materials and services, and rendering FMS billings are designed to fulfill this legal requirement. Consequently, the FMS administrative surcharge and contract administration costs that are added to the basic price of FMS agreements are functional costs rather than a profit-making exercise.

**Recommendation:** Purchasers should not view these surcharges as excess costs and should not assume that they will not exist in commercial sales. Implementation of the recommendations in paragraph 1 above will enable purchasers to ascertain the necessity of functional costs.

**3. Conclusion:** Due to the inability of the purchasing country to determine specific charges, such as general or administrative costs or overall contractor profits, the

receiving country must rely on the goodwill of the U.S. to ensure that a fair deal is struck. Essentially, the relationship between the purchaser and the U.S. is founded on trust.

**Recommendation:** The U.S. government should consider providing line item invoices which include administrative costs. Administrative costs can be compared to the "dealer markup" charged by car dealerships which are listed as part of the sticker price of a vehicle. A line-item listing of contractor profits, however, could create more problems than they solve. What constitutes a fair contractor profit is best left to the supplying nation. However, receiver participation in negotiations, as indicated above, will help purchasers determine the integrity of the contractor and could obviate the need for a line-item listing of contractor profits.

**4. Conclusion:** The greatest problem, which remains a major stumbling block, concerns the matching of the final Letter of Offer and Acceptance (LOA-DD Form 1513) estimates and final costs. The inability to match estimated expenses with actual costs can make fund management more difficult for the receiving nation. Resolution of funding

discrepancies often requires higher level involvement by DSAA, the Secretary of Defense, or the Congress.

**Recommendation:** Both governments should clamp down on cost overruns. This can only happen if both governments are involved in the procurement process. When the U.S. government assumes total responsibility for the management of a foreign military sales, they also, by inference, assume part of the responsibility for timely notification of cost overruns. A team approach to contract management by the supplying and receiving nation will enable early detection of problems and swift revision of contracts, if needed, to reduce expenditures.

In summary, the FMS program is big business. The role of field activities continues to be significant. Closer relationships between the receiver, supplier and contractor would enhance the FMS procurement process. Additionally, there is a political dimension to the FMS program which, though difficult to quantify, should be understood by the receiving nation. Political relationships between the supplying and receiving nation play a large part in determining the allocation of funds or the forgiving of debts.

## **APPENDIX A**

### **PREPARATION OF LETTER OF OFFER AND ACCEPTANCE**

#### **A. OFFER PORTION**

##### **1. Block 1, Purchaser**

This block should start with name of the country and the office and address of that country's activity designated to receive the Letter of Offer and Acceptance. For an international organization, it must start with the title of that organization along with the appropriate office and address.

##### **2. Block 2, Purchaser's Reference**

The reference may be a letter, telegram, conference, meeting, oral request, etc. It must also include a date.

##### **3. Block 3, Case Identifier**

The identifier consists of three separate elements: Country Code, DOD Implementing Agency Code and Case Designator. Country Code examples are: TK-Turkey, KS-Korea, AT-Australia. Implementing agency code examples are: B - U.S. Army, D - U.S. Air Force, P - U.S. Navy. For the case designator, examples for Army are: G - Communications Security, H - Construction, M - Medical, N - Technical Data



Packages, O - Training, P - Planning, Q - Material/Services (from U.S. activities located in Europe), S - Material/Services (for Latin America), T - Publications, U-Z -Material/Services (provided from Material Readiness Commands).

#### **4. Block 4, Signature**

This block is used for signature of U.S. Dept/Agency Authorized Representatives unless the case requires Congressional review. For Congressional review cases, this block should be left blank.

#### **5. Block 5, Typed Name and Title**

This block should contain the typed name and title of the person who signed in Block 4.

#### **6. Block 6, Address**

Organization, title and address of the DOD cognizant office making the offer.

#### **7. Block 7, Date**

While preparing the LOA, this block must be left blank. The date is entered just prior to forwarding the LOA to DSAA Comptroller for countersignature.

#### **8. Block 8, This Offer Expires**

This block is left blank so that the relevant headquarters may assign an appropriate expiration data to



the purchasing country. Required date is 85 days after the date in Block 7. If a shorter period is necessary for some reason, an explanatory note should be added.

**9. Block 9, Countersignature**

An authorized representative of the DSAA Comptroller countersigns all LOAs.

**10. Block 10, Typed Name and Title**

Typed name and title of official who countersigned in Block 9.

**11. Block 11, DSAA Accounting Activity**

The following address is placed in this block:  
AFAFC-SAAC, Lowry Air Force Base, Denver, CO 80279-5000.

**12. Block 12, Item or Reference Number**

Each entry will be numbered individually and consecutively beginning with number 1.

**13. Block 13, Item Description**

The entry information for this block is in accordance with and taken from the Military Articles and Services List (MASL). The maximum number of sublines is 10. If more than 10 sublines qualify for entry under a particular entry, an added note to annex is required. Items with no National Stock Number (NSN), such as nonstandard items or services, must be listed as sublines under the

entry header. Condition and description of materiel is explained in Annex A of the DD Form 1513, Explanatory Note 4.

#### **14. Block 14, Quantity**

Quantity for nonammunition items will normally be the quantity requested by the country. Quantity for ammunition indicated by the U.S. supplying inventory manager is entered as stocks are available.

#### **15. Block 15, Unit of Issue**

Unit of issue is entered if defined quantity is requested, otherwise it should be typed as N/A or left blank. The units of issue most commonly used are "EA" (each) and "SE" (set).

#### **16. Block 16, Unit Cost**

The following guidelines apply when indicating unit costs:

- Unit costs are indicated in U.S. dollars and cents.
- Unit costs are for sublines and appear in parentheses.
- Unit costs appearing on annexes will be indicated in parentheses.
- Unit costs will not be indicated for support teams.

Unit cost includes both basic contractor's price and other costs.

Basic contractor's price consists of allowable direct labor, direct material, overhead and profit.

Other costs includes nonrecurring research, development, test and evaluation (RDT&E) costs, nonrecurring production costs<sup>14</sup>, asset use charge<sup>15</sup>, and contract administration costs<sup>16</sup>

#### **17. Block 17, Total cost**

This block is used to record the total cost for each numeric line item. For defined lines, total cost is the unit cost multiplied by the quantity in Block 14.

#### **18. Block 18, Availability and Remarks**

Availability and remarks data consist of six elements which are: source of supply, availability/leadtime for delivery, condition of materiel, training notes,

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<sup>14</sup>Nonrecurring RDT&E costs and nonrecurring production costs are computed according to the pro rata share which is determined by dividing the total of nonrecurring cost investment (nonrecurring production and nonrecurring RDT&E) by the total estimated number of units to be produced over the life of the system. The current surcharge is 5% of the item's DoD inventory price.

<sup>15</sup>Asset use charge, if applicable, is applied as a 4% surcharge of contractor's price. It is a rental charge for government-owned facilities and is computed according to Federal Acquisition Regulation (FAR) procedures.

<sup>16</sup>Assistant Secretary of Defense (Comptroller) determines the applicable contract administrative surcharge by dividing the cost of doing contract administration for FMS by anticipated disbursements to contractors which will be reported to Security Assistance Accounting Center (SAAC). This is currently 1.5%.

explanatory footnotes, and type of assistance. These elements are explained in Annex A as indicated in Appendix B.

#### **19. Block 19, Offer Release Code**

One of the following codes must be entered:

- "A" Freight and small parcel shipments will be released automatically by the shipping activity without advance notice.
- "Y" Advance notice is required before release of shipment. If release instructions are not received by shipping activity within 15 calendar days, then it can be released automatically.
- "Z" Advance notice is required before release of shipment. Shipping activity will follow up on the notice of availability until release instructions are furnished.

#### **20. Block 20, Delivery Term Code**

One of the following Delivery Term Codes (DTC) is entered:

- Code 0 - Special Airlift Mission
- Code 2 - Delivery to destination in land of origin
- Code 3 - Delivery alongside vessel at Continental United States (CONUS) port of exit
- Code 4 - Collect or prepaid commercial bill of lading to commercial port of exit
- Code 5 - Delivery to commercial port of exit by Government Bill of Lading (GBL)
- Code 6 - Delivery to overseas port of discharge

- Code 7 - Delivery to destination
- Code 8 - Delivery to vessel (onboard)
- Code 9 - Delivery to port discharge

#### **21. Block 21. Estimated Cost**

Block 21 is the total of all lines (Block 17) on the case. Cost must be entered in whole dollars.

#### **22. Block 22, Estimated Packing, Crating, and Handling Cost (PCH)**

This block reflects the total PCH charges to be assessed materiel sold from stock. PCH costs are those costs at DOD facilities for labor, materials, and services to take articles from storage, prepare them for shipment and process the document. PCH costs do not apply to sales from procurement unless the materiel is processed through a DOD depot. The value is based on the supply source (Appendix B, explanatory notes-3) as listed below.



Supply SourcePCH Applied

All P

None

All S, R, X, E and Special  
Defense Acquisition Fund  
(SDAF)<sup>17</sup> other than General  
Service Administration (GSA)3.5 percent of initial  
50,000 unit value and  
1 percent of any  
remaining valueCurrent spare parts (CSP)  
and Annex lines other than  
GSA items

3.5 percent

**23. Block 23, Estimated General Administrative Costs**

Total amount to be charged for general administrative cost is entered in this block. These costs are added to all FMS cases to recover expenses of sale negotiations, case implementation, procurement, administration of reports of discrepancy, correcting deficiencies, program control, computer programing, accounting and budgeting, and administration of FMS at command headquarters. This fee is determined by a 3.0 percent fee against the value of identified standard items, standard and nonstandard services and 5.0 percent fee against nonstandard items.

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<sup>17</sup>SDAF is used as a revolving fund under the control of the DoD to finance the acquisition of defense articles and services in anticipation of their transfer to eligible foreign nations and international organizations.



## 24. Block 24, Estimated Charges for Supply Arrangements

The estimated administrative charges are entered in this block for only Cooperative Logistic Supply Support Arrangements (CLSSA).

## 25. Block 25, Other Estimated Costs

This block is the summary of all other authorized charges. Normally, these charges consist of asset use charges and transportation charges.

### ASSET USE CHARGE

<u>Supply Source</u>	<u>Asset Use Charged</u>
All SDAF	1% - Only when sold from inventory with payback.
All P	None
All S, R, X, & E	1%

NATO countries, with the exception of France, Iceland, and Portugal will not be charged asset use on publications.

### TRANSPORTATION CHARGES

When actual costs are not required for transportation, appropriate rates are applied as follows:

<u>Application</u>	<u>Percentage</u>
a. CONUS transportation	3.75
b. CONUS port loading, unloading, and handling	2.50

- c. Overseas inland transportation 3.00
- d. Overseas port loading, unloading, and handling 1.00
- e. Ocean transportation from CONUS to:
  - (1) Europe, Latin America, and Mediterranean ports 4.00
  - (2) Far East, Near East, African ports, South America, Iceland, Thule, Newfoundland 6.00

Transportation costs are applied based upon the Delivery Term Code (DTC) of the item. Each DTC is a combination of one or more of the above applicable costs as follows:

<u>DTC</u>	<u>Applicable Costs</u>	<u>Total Percentage</u>
4		None
5	a	3.75
6	a, b, e (1)	10.25
	a, b, e (2)	12.25
7	a, b, c, d, e (1)	14.25
	a, b, c, d, e (2)	16.25
8	a, b	6.25
9	a, b, d, e (1)	11.25
	a, b, d, e (2)	13.25

These percentages are used up to \$10,000. In excess of this amount, charges will be applied at 1/4 the normal rate for all that remains. Example: an item with a unit cost of \$17,000 is being shipped delivery term code 6 to the Mediterranean. Transportation costs will be computed as follows:

$$.1025 \times \$10,000 = \$1025.00$$

$$.25 \times .1025 \times \$7000 = \underline{179.38}$$

$$\text{Total Cost} = \$1204.38$$

#### **26. Block 26, Estimated Total Cost**

This block is the total case value which is the total of Blocks 21 through 25.

#### **27. Block 27, Terms**

Proper term of sale is entered in this block. All available terms are shown in Figure L. The statement "Payment will be in accordance with the provision of the financial annex." should always be entered [Ref. 7:p. AA-1,4].

#### **28. Block 28, Amount of Initial Deposit**

The dollar amount from the FMS Payment Schedule<sup>18</sup> is entered including 50% of the administrative costs.

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<sup>18</sup>Payment Schedule, which is an integral part of the financial annex, shows the initial deposit and estimated amount payable. This part will be explained in billing statement part.

1. Article(s) sold only from Stock	3	S, E, R	Anytime	Cash with Acceptance	100% of total estimated cost
2. Article(s) sold only partially from Stock	3	S, E, R	Anytime	Cash Prior to Delivery	100% of S, E, and R coded articles
3. Service(s) sold only from Stock	3	S	To be performed in a period requiring 100% initial deposit	Cash with Acceptance	100% of total estimated cost
4. Service(s) sold only from Stock	3	S	To be performed in a period not requiring 100% initial deposit	Cash Prior to Delivery	As shown in the Financial Annex
5. Service(s) sold partially from Stock	3	S	a. To be performed in a period requiring 100% initial deposit b. To be performed in a period not requiring 100% initial deposit	Cash with Acceptance Cash prior to Delivery	100% of S coded services As shown in the Financial Annex
6. Article(s)/service(s) sold only from procurement	5	P	To be delivered/performed in a period requiring 100% initial costs	Cash with Acceptance	100% of total estimated costs
7. Article(s)/service(s) sold only from procurement	5	P	To be delivered/performed over a period not requiring 100% initial deposit	Dependable Undertaking	As shown in the Financial Annex

**Figure L. Terms of Sale**

8. Article(s)/service(s) sold partially from procurement	5	P	a. To be delivered/ performed in a period requiring 100% initial deposit b. To be delivered/ performed in a period requiring initial deposit of less than 100%	Cash with Acceptance	100% of P coded article(s)/services
9. Mixed stock and procurement of source not predetermined	4	X	Not predetermined	Dependable Undertaking	As shown in the Financial Annex
10. Article(s) and/or service(s) sold from Stock	6	As required	Anytime	Payment on Delivery	None
11. Article(s) and/or service(s) sold from procurement	7	as required	Anytime	Payment 120 days after delivery	None
12. Article(s) and/or service(s) sold from Stock	8	As required	Anytime	Payment 120 days after delivery	None
13. Foreign Military Sales Order Stock Level Sales Case	U	P	N/A	Cash with Acceptance S____, balance as billed	5/17th of estimated cost plus 100% of Administrative Charges
14. Foreign Military Sales Order (Consumption Sales Case)	V	P	N/A	Cash Prior to Delivery Dependable Undertaking	As shown in the Financial Annex
15. Combination of above resulting in more than one term of sale				(show two or more terms as appropriate)	As shown in the Financial Annex

**Figure L.** (continued)

## **B. ACCEPTANCE PORTION**

### **1. Block 29, Acceptance**

The purchaser enters the name of the purchasing country.

### **2. Block 30, Acceptance**

The purchaser enters the date the DD Form 1513 is signed by an authorized representative.

### **3. Block 31, Signature**

The authorized representative of the country signs this block.

### **4. Block 32, Typed Name and Title**

Name of the representative of the purchaser signing the DD 1513 is entered in this block.

### **5. Block 33, Mark for Code**

The mark for code normally indicates where, within the customer country, the shipment is destined. Purchaser enters this code taken from DOD 5105.38D, Military Assistance Program Address Directory (MAPAD)<sup>19</sup>.

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<sup>19</sup>MAPAD contains the addresses required for shipment of materiel and distribution of related documentation under FMS and MAP.



**6. Block 34, Freight Forwarder (FF) Code**

The appropriate FF code contained in the MAPAD is entered. This code designates which freight forwarder will receive the shipment.

**7. Block 35, Procuring Agency**

The purchaser puts the office it wishes the United States Government to contact in the event of questions regarding the LOA. B stands for Army, D for Air Force, P for Navy.

**8. Block 36, Designated Paying Office**

The customer country enters the office where it wishes the Quarterly Billing Statements (DD Form 645) to be sent by the Security Assistance Accounting Center (SAAC).

**9. Block 37, Address of Designated Paying Office**

The customer country enters the full address of the activity listed in Block 36.

## **APPENDIX B**

### **GENERAL CONDITIONS OF LOA**

#### **A. THE GOVERNMENT OF THE UNITED STATES:**

1. Agrees to furnish such items from its Department of Defense (hereinafter referred to as DOD) stocks and resources, or to procure them under terms and conditions consistent with DOD regulations and procedures. When procuring for the purchaser, the DOD shall, in general employ the same contract clauses, the same contract administration, and the same inspection procedures as would be used if procuring for itself, except as otherwise requested by the purchaser and as agreed to by the DOD. Unless the purchaser has requested that a sole source contractor be designated, and this Letter of Offer and Acceptance reflects acceptance of such designation by the DOD, the purchaser understands that selection of the contractor source to fill this requirement is solely the responsibility of the Government of the United States (hereinafter referred to as USG). Further, the purchaser agrees that the United States DoD is solely responsible for negotiating the terms and conditions of all contracts

necessary to fulfill the requirements in the Letter of Offer.

2. Advises that when the DOD procures for itself, its contracts include warranty clauses only on an exceptional basis. However, the USG shall, with respect to items being procured, and upon timely notice, attempt to the extent possible to obtain any particular or special contract provisions and warranties desired by the Purchaser. The USG further agrees to exercise, upon the Purchaser's request, any rights (including those arising under any warranties) the USG may have under any contract connected with the procurement of any items. Any additional cost resulting from obtaining special contract provisions or warranties, or the exercise of rights under such provisions or warranties, or any other rights that the USG may have under any contract connected with the procurement of items, shall be charged to the Purchaser.

3.a. Shall, unless the condition is otherwise specified herein (e.g., "As is"), repair or replace at no extra cost defense articles supplied from DOD stocks which are damaged or found to be defective in respect of material or workmanship, when it is established that these deficiencies existed prior to passage of title, or found to be defective

in design to such a degree that the items cannot be used at all for the purpose for which they were designed. Qualified representatives of the USG and of the Purchaser, upon notification pursuant to paragraph B.6 below, shall agree on the liability of the USG hereunder and the corrective steps to be taken.

b. With respect to items being procured for sale to the Purchaser, the USG agrees to exercise warranties on behalf of the Purchaser pursuant to A.2 above to assure, to the extent provided by the warranty, replacement or correction of such items found to be defective.

c. In addition, the USG warrants the title of all items sold to the Purchaser hereunder. The USG, however, makes no warranties other than those specifically set forth herein. In particular the USG disclaims any liability resulting from patent infringement occasioned by the use or manufacture by or for Purchaser outside the United States of items supplied hereunder.

4. Agrees to deliver and pass title to the items to the Purchaser at the initial point of shipment unless otherwise specified in this Offer and Acceptance. With respect to defense articles procured for sale to the Purchaser, this will normally be at the manufacturers' loading facilities;

with respect to defense articles furnished from stocks, this will normally be at the U.S. depot. Articles will be packed, crated or otherwise prepared for shipment prior to the time title passes. If "Point of Delivery" is specified otherwise than the initial point of shipment, the supplying Military Department or Defense Agency will arrange movement of the items to the authorized delivery point as reimbursable service but will pass title at the initial point of shipment; the USG disclaims any liability for damage or loss to the items incurred after passage of title irrespective of whether transaction is by common carrier or by the U.S. Defense Transportation System.

5. Advises that: a. Unless otherwise specified, USG standard items will be furnished without regard to make or model.

b. The price of items to be procured shall be at their total cost to the USG. Unless otherwise specified, the cost estimates of items to be procured, availability determination, payment schedule, and delivery projections quoted are estimates based on current available data. The USG will use its best efforts to advise the Purchaser or its authorized representatives by DD Form 1513-2:



(1) of any identifiable cost increase that might result in an increase in the "Estimated Total Costs" in excess of 10 percent;

(2) of any changes in the payment schedule(s); and

(3) of any delays which might significantly affect the estimated delivery dates;

but it's failure to so advise of the above shall not affect the Purchaser's obligation under paragraphs B.1. and B.3. below.

c. The USG will, however, use its best efforts to deliver items or render services for the amount and at the times quoted.

6. Under unusual and compelling circumstances when the national interest of the United States so requires, the USG reserves the right to cancel or suspend all or part of this Offer and Acceptance at any time prior to the delivery of defense articles or performance of services (including training). The USG shall be responsible for all termination costs of its suppliers resulting from cancellations or suspensions under this paragraph.

7. Shall refund to the Purchaser any payments received hereunder which prove to be in excess of the final total cost of delivery and performance of this Offer and



Acceptance, and are not required to cover arrearages on other open Offers and Acceptances of the Purchaser.

8. Advises the personnel performing defense services provided under this Offer and Acceptance will not perform any duties of a combatant nature, including any duties relating to training, advising, or otherwise providing assistance regarding combat activities, outside the United States in connection with the performance of these defense services.

9. Advises that in the assignment or employment of United States personnel of this Offer and Acceptance, the USG will not take into account race, religion, national origin or sex.

10. Advises that, notwithstanding Purchaser's agreement to pay interest on any net amount by which Purchaser may be in arrears on payments (as provided for in paragraph B.3.g. below), USG funds will not be used for disbursements by DOD to its contractors in the event of any such arrears in payments. Accordingly, failure by the Purchaser to make timely payments in the amounts due may result in delays in contract performance by DOD contractors, claims by contractors for increased costs (including the above mentioned interest costs), claims by contractors for

termination liability for breach of contract or termination of contracts by the USG under this or other open Offers and Acceptances of the Purchaser at Purchaser's expense.

**B. THE PURCHASER:**

1. Shall pay to the USG the total cost to the USG of the items, even if the final total cost exceeds the amounts estimated in this Offer and Acceptance.

2. Shall make payment(s) for the items by check(s) or by wire transfer payable in United States dollars to the Treasurer of the United States.

3.a. Shall, if "Terms" specify "cash with acceptance", forward with this Offer and Acceptance a check or wire transfer in the full amount shown as the estimated total cost, and agrees to make such additional payment(s) as may be specified upon notification of cost increase(s) and request(s) for funds to cover such increases.

b. Agrees if "Terms" specifies payment to be "cash prior to delivery" to pay to the USG such amounts at such times as may be specified from time to time by the USG (including any initial deposit set forth under "Terms") in order to meet payment requirements for articles or services to be furnished from the resources of the US Department of Defense. USG requests for funds may be based on estimated

requirements to cover forecasted deliveries of articles or costs to provide defense services. It is USG policy to obtain funds 90 days in advance of the time DOD plans such deliveries or incurs such expenses on behalf of the Purchaser.

c. Agrees, if "Terms" specify payment by "dependable undertaking" to pay to the USG such amounts at such times as may be specified from time to time by the USG (including any initial deposit set forth under "Terms") in order to meet payments required by contracts under which items are being procured, and any damages and costs that may accrue, or have accrued, from termination of contracts by the USG because of Purchaser's cancellation of this Offer and Acceptance under paragraph B.7. hereof, USG requests for funds may be based upon estimated requirements for advance and progress payments to suppliers, estimated termination liability, delivery forecasts or evidence of constructive delivery, as the case may be. It is USG policy to obtain such funds 90 days in advance of the time USG makes payments on behalf of the Purchaser.

d. Agrees, if "Terms" specify "payment on delivery" that bills may be dates as of the date(s) of delivery of the

defense articles or rendering of the defense services, or upon forecasts of the date(s) thereof.

e. Agrees, if "Terms" specify payment under a Credit Agreement between the Purchaser and DOD, to pay to the USG on a "dependable undertaking" basis, in accordance with B.3.c. above, such costs as may be in excess of the amount funded by the Credit Agreement.

f. Agrees, that requests for funds or billings under paragraphs 3.b.a through e. above are due and payable in full on presentation, or, if a payment date is specified in the request for funds or bill, on the payment date so specified, even if such payment date is not in accord with the estimated payment schedule, if any, contained in this Offer and Acceptance. Without affecting Purchaser's obligation to make such payment(s) when due, documentation concerning advance and progress payments, estimated termination liability or evidence of constructive delivery or shipment in support of request for funds or bills will be made available to the Purchaser by DOD upon request. When appropriate, Purchaser will request adjustment of any questioned billed items by subsequent submission of required discrepancy reports in accordance with paragraph B.6. below.

g. Agrees to pay interest on any net amount by which it is in arrears on payments, determined by considering collectively all of the Purchaser's open Offers and Acceptances with the DOD. Interest shall be calculated on a daily basis. The principal amount of the arrearage shall be computed as the excess of cumulative financial requirements of the Purchaser over total cumulative payments after quarterly billing payment due dates. the rate of interest paid shall be a rate not less than a rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding short-term obligations of the USG as of the last day of the month preceding the net arrearage and shall be computed from the date of net arrearage.

h. Shall designate the Procuring Agency and responsible Paying Office and address thereof to which the USG shall submit requests for funds and bills under this Offer and Acceptance.

4. Shall furnish shipping instructions for the items with its acceptance of this Offer and Acceptance. Such instructions shall include (a) Offer/Release Code, (b) Freight Forwarder Code, and (c) the Mark for Code, as applicable.



5. Shall be responsible for obtaining the appropriate insurance coverage and customs clearances, and, except for items exported by the USG, appropriate export licenses.

6. Shall accept title to the defense articles at the initial point of shipment (see A.4. above). Purchaser shall be responsible for in-transit accounting and settlement of claims against common carriers. Title to defense articles transported by parcel post shall pass to the Purchaser on date of parcel post shipment. Standard Form 364 shall be used in submitting claims to the USG for overage, shortage, damage, duplicate billing, item deficiency, improper identification or improper documentation and shall be submitted by Purchaser promptly. Claims of \$100.00 or less will not be reported for overages, shortages, or damages. Claims received after one year from date of passage of title or billing, whichever is later, will be disallowed by the USG, unless the USG determines that unusual and compelling circumstances involving latent defects justify consideration of the claim.

7. May cancel this Offer and Acceptance with respect to any or all of the items listed in this Offer and Acceptance at any time prior to the delivery of defense articles or performance of services (including training). It shall be



responsible for all costs resulting from cancellation under this paragraph.

8. Shall, except as may otherwise be mutually agreed in writing, use the items sold hereunder only:

a. For the purposes specified in the Mutual Defense Assistance Agreement, if any, between the USG and the Purchaser;

b. For the purposes specified in any bilateral or regional defense treaty to which the USG and the Purchaser are both parties, if subparagraph a, of this paragraph is inapplicable; or

c. For internal security, individual self-defense, and/or civic action, if subparagraphs a. and b. of this paragraph are inapplicable.

9. Shall not transfer title to, or possession of, the defense articles, components and associated support material, related training or other defense services (including any plans, specifications or information) furnished under this Offer and Acceptance to anyone not as officer, employee or agent of the Purchaser (excluding transportation agencies), and shall not use or permit their use for purposes other than those authorized by B.8. above, unless the written consent of the USG has first been

obtained. To the extent that any items, plans, specifications, or information furnished in connection with this Offer and Acceptance may be classified by the USG for security purposes, the Purchaser shall maintain a similar classification and employ all measures necessary to preserve such security, equivalent to those employed by the USG, throughout the period during which the USG may maintain such classification. The USG will use its best efforts to notify the Purchaser if the classification is changed. The Purchaser will ensure, by all means available to it, respect for proprietary rights in any defense article and any plans, specifications, or information furnished, whether patented or not.

#### **C. INDEMNIFICATION AND ASSUMPTION OF RISKS:**

1. It is understood by the Purchaser that the USG in procuring and furnishing the items specified in the Offer and Acceptance does so on a nonprofit basis for the benefit of the Purchaser. The Purchaser therefore undertakes, subject to A.3. above, to indemnify and hold the USG, its agents, officers and employees harmless from any and all loss or liability (whether in tort or in contract) which might arise in connection with this Offer and Acceptance because of: (i) injury to or death of personnel of

Purchaser or third parties; (ii) damage to or destruction of (A) property of the DOD furnished to Purchaser or suppliers specifically to implement this Offer and Acceptance, (B) property of Purchaser (including the items ordered by Purchaser pursuant to this Offer and Acceptance, before or after passage of title to Purchaser), or (C) property of third parties or (iii) patent infringement.

2. Subject to any express, special contractual warranties obtained for the Purchaser in accordance with A.2. above, the Purchaser agrees to relieve the contractors and subcontractors of the USG from liability for, and will assume the risk of, loss or damage to: (i) Purchaser's property (including the items procured pursuant to this Offer and Acceptance, before or after passage of title to Purchaser) and (ii) property of the DOD furnished to suppliers specifically to implement this Offer and Acceptance, to the same extent that USG would assume for its property if it were procuring for itself the item or items procured pursuant to this Offer and Acceptance.

#### **D. ACCEPTANCE:**

1. To accept the Offer and Acceptance, the Purchaser will not later than the expiration date of the Offer and Acceptance, as set forth herein, return three copies

properly signed to the security assistance accounting center designated herein, accompanied by such initial deposit or other payment as may be required by the Terms herein. In addition, Purchaser will concurrently return three copies properly signed to the U.S. Military Department or Defense Agency making the offer. When properly accepted and returned as specified herein, the provisions of this Offer and Acceptance shall be binding upon the USG and the Purchaser.

2. It is understood that implementation of the Offer and Acceptance cannot proceed without a proper acceptance. Failure to comply with Terms and Conditions required for acceptance, as, for example, delay in submission of any required initial deposit or payment of full estimated cost, as the case may be, may require revision or reissue of the Offer and Acceptance.

3. Unless a written request for extension is made by the Purchaser and granted in writing by an authorized representative of the appropriate U.S. Military Department of Defense Agency, this Offer and Acceptance shall terminate on the expiration date set forth herein.

**E. ENCLOSURES:**

Enclosures attached hereto are, by this reference, incorporated herein and are made a part hereof as though set forth in full.

**F. PUBLIC INSPECTION:**

This Offer and Acceptance will be made available for public inspection to the fullest extent possible consistent with the national security of the United States.

**EXPLANATORY NOTES**

1. The item or reference numbers appearing in the "ITEM OR REF. NO." column may not correspond with references used in Purchasers' original request. However, this number, together with the case identifier shown should always be used as a reference in future correspondence.
2. Availability leadtime quoted is the estimated number of months required to complete delivery of the item(s) in accordance with the terms of delivery after receipt of acceptance of this Offer pursuant to Section D, of the Conditions, and the conclusion of appropriate financial arrangements. Phased deliveries are shown by quantity and leadtime for each increment, where applicable. Items for which delivery leadtime is not shown are noted in column



headed "Item Description" as items to be installed in the applicable end item prior to shipment.

3. The planned source of supply for each item is expressed in the following codes:

S (\*) Service Stocks

P (\*) Procurement

R (\*) Rebuild/Repair/Modification

X (\*) Stock and procurement, e.g., initial repair parts

E (\*) "Mimex" major items in long supply or excess

\* Availability is stated in months.

4. Condition of the defense articles shown in the "AVAILABILITY AND REMARKS" column is expressed in the following codes:

A1 - Items to be provided in existing condition without repair, restoration or rehabilitation which may be required. Condition indicated in item description.

M - Articles of mixed condition (new, reworked, and rehabilitated) may be commingled when issued. Example: repair parts, ammunition, set assemblies, kits, tools sets and shop sets.

B - Serviceable defense articles.

O - Obsolete or non-standard item in an "AS IS" condition for which repair parts support may not be available from DOD.

S - Substitute. Suitable substitution may be shipped for unavailable defense articles unless otherwise advised by the Purchaser.



U - Reworked or rehabilitated defense articles possessing original appearance insofar as practicable: including all Modification Work Orders and Engineering Change Orders as applied to such defense articles when issued by defense articles should not be considered as having had total replacement of worn parts and/or assemblies. Only parts and components not meeting US Armed Forces serviceability tolerances and standards will have been replaced; in all instances such defense articles will meet US Armed Forces standards of serviceability.

5. Training notes:

AP - Annual Training Program.

SP - Special Training designed to support purchases of equipment.

NC - This offer does not constitute a commitment to provide US training.

SC - US Training concurrently being addressed in separate Offer and Acceptance.

NR - No US training is required in support of this purchase.

6. For meaning of delivery codes, see Military Assistance Program Address Directory (MAPAD).

7. The use of Offer/Release Codes "Y" and "Z" will incur a storage fee of .125% per month for shipment delays in excess of 15 days.

# APPENDIX C

## DD FORM 1513, ORIGINAL CASE

UNITED STATES DEPARTMENT OF DEFENSE OFFER AND ACCEPTANCE				(1) PURCHASER (Name and Address) (Zip Code) Government of Turkey Embassy of the Republic of Turkey 2202 Massachusetts Avenue, N.W. Washington, D.C. 20008				
(2) PURCHASER'S REFERENCE JUSMMAT TK TPM		(3) CASE IDENTIFIER TK-8-USV						
Msg 041050Z Nov 85				OFFER				
Pursuant to the Arms Export Control Act, the Government of the United States (USG) hereby offers to sell to the above purchaser the defense articles and defense services listed below (hereinafter referred to collectively as "items" and individually as "defense articles" or "defense services"), subject to the terms contained herein and conditions set forth in Annex A, and to such other special terms and conditions which may be added to, and appended to, this Offer and Acceptance.								
(14) <i>Steven S. Jones</i> Signature (US Dept./Agency Authorized Representative)				(19) <i>Herbert K. Morris</i> Countersignature (Office of the Comptroller, DSAA) (Date) 14 JAN 1986				
(15) STEVEN S. JONES, ACTG DIR, EUR DIR Typed Name and Title				(10) HERBERT K. MORRIS Typed Name and Title Comptroller				
(6) ADDRESS U.S. Army Security Assistance Cen				(11) DSAA ACCOUNTING ACTIVITY AFAFC-SAAC LOWRY AFB, DENVER, CO 80279				
(7) DATE 13 Jan 86				86-21				
(8) THIS OFFER EXPIRES 14 Jan 86								
NOTE: This offer must be accepted not later than the date shown in block 8. Within five (5) days of its acceptance, you must notify the Office of the Comptroller, DSAA. Otherwise, this Offer is cancelled and retention of initial deposit by offerer pending disposition instructions shall not be deemed a waiver of such cancellation. Request prompt notification if this offer is rejected.								
ITEM OR ALT NO (12)	ITEM DESCRIPTION (Including Item Number if applicable) (13)	QUANTITY (14)	UNIT OF ISSUE (15)	UNIT COST (16)	TOTAL COST (17)	AVAIL & SH-1Y AND REMARKS (18)	OFFER AT LEAST CODE (19)	DE LEVITY ITEM CODE (20)
1	129Z 00 FYR CTRL a. Part no SMC-804907-3 (Q) AN/VSG-2 Tank Thermal Sight for M4BA5T1 Tank Fire Control System Minus Rear Cover and Mount	410	EA	(\$111,068.00)	\$86,731,480	P(28)B Notes 12, 13, 18, 19, 21, 30, 32, & 33 TAS NC	Z	4
(21) ESTIMATED COST				\$ 132,861,141				
(22) ESTIMATED PACKING, CRATING, AND HANDLING COST				\$ 1,490				
(23) ESTIMATED GENERAL ADMINISTRATIVE COSTS Note 31				\$ 6,638,715				
(24) ESTIMATED CHARGES FOR SUPPLY SUPPORT ARRANGEMENT				\$				
(25) OTHER ESTIMATED COSTS (Specify) Note 17				\$ 424				
(26) ESTIMATED TOTAL COSTS				\$ 139,501,770				
(27) TERMS Dependable Undertaking Payment will be in accordance with the provisions of the Financial Annex, subject to paragraph B.3.f of Annex A.				(28) AMOUNT OF INITIAL DEPOSIT - \$ 31,508,206				
DATE OF IMPLEMENTATION 14 JAN 1986								
ACCEPTANCE								
(29) I am a duly authorized representative of the Government of REPUBLIC OF TURKEY and upon behalf of said Government, accept this offer under the terms and conditions contained herein (30) this 18 JAN 1986				(33) MARK FOR CODE E (34) FREIGHT FORWARDER CODE 2 (35) PROCURING AGENCY B (ARMY)				
(31) <i>Ali G. Can Vural AVAR</i> SIGNATURE				(36) DESIGNATED PAYING OFFICE				
(32) Ali G. Can Vural AVAR TYPED NAME AND TITLE				(37) ADDRESS OF DESIGNATED PAYING OFFICE TURKISH EMBASSY OFFICE OF THE DEFENSE ATTACHE ARMY PROCUREMENT OFFICE 2202 MASS AVENUE, N.W.				

UNITED STATES DEPARTMENT OF DEFENSE CONTINUATION SHEET FOR DD FORMS 1513, 1513-1 AND 1513-2				CASE IDENTIFIER TK-8-USV				
ITEM OR REF NO	ITEM DESCRIPTION (Including Stock Number if applicable)	QUANTITY	UNIT OF ISSUE	ESTIMATED		AVAILA- BILITY AND REMARKS	OFFER RE- LEASE CODE	OE- LIVERY TERM CODE
				UNIT COST	TOTAL COST			
	b. Part No SMC-804907-3 (Q) AN/VSG-2 Tank Thermal Sight for M48A5T1 Tank Fire Control System, Minus Rear Cover and Mount	350	EA	(\$117,696.00)		P(33)8 Notes 12, 13, 18, 19, 21, 30, 32, & 35 TA5 NC	Z	4
2	129Z 00 FYR CTRL (F4D/N)		XX		\$25,409,840			
	a. Special Kit to (Q) include the following items for support of the Tank Thermal Sight in the M48A5T1 Tank  PN TI 2786572-1 Rear Cover PN TI 2854289-1 Head Rear Cover Cable PN TI 2862388-1 Turret Power Ext Cable PN TI 2854315-1 EIU/Computer Cable PN TI 2854318-1 TTS Power Cable PN TI 2862373-1 Stabilization Interface Cable PN TI 2854329-1 Fire Control Power Cable PN TI 2854286-1 Laser Cable	760	EA	(\$33,434.00)		P(32)8 Notes 8, 12, 13, 18, 19, & 30 TA5 NC	Z	4
3	129Z 00 FYR CTRL (F4D/Z)		XX		6,956,440		A	
	a. Miscellaneous Parts as Listed on Annex C		XX	(\$6,956,440.00)		P(22)8 Notes 12, 13, 18 & 19 TA5 NC		
4	9F9A 00 WPN PRTS (F9A/N)				42,393		A	
	a. Miscellaneous Items as Listed on Annex D		XX	(\$42,392.80)		X(24)M Notes 11 & 35 TA5 NC		
5	129Z 00 FYR CTRL (F4D/N)		XX		6,008,000			
	a. Solid State Ballistic Computer composed of the following components:							

UNITED STATES DEPARTMENT OF DEFENSE CONTINUATION SHEET FOR DD FORMS 1513, 1513-1 AND 1513-2				CASE IDENTIFIER TK-B-USV				
ITEM OR REF. NO.	ITEM DESCRIPTION (Including Stock Number if applicable)	QUANTITY	UNIT OF ISSUE	ESTIMATED		AVAILA- BILITY AND REMARKS	OFFER RE- LEASE CODE	DE- LIVERY TERM CODE
				UNIT COST	TOTAL COST			
	(1) P/N COC/157141-901 (Q) Electronic Interface	200	EA	(\$10,337.00)		P(33)B Notes 12, 13, 18, 19 & 30 TA5 NC	Z	4
	(2) P/N COC/156057-901 (Q) Computer Electronic Unit	200	EA	(\$15,957.00)		P(33)B Notes 12, 13, 18, 19 & 30 TA5 NC	Z	4
	(3) P/N COC/156059-901 (Q) Computer Control Panel	200	EA	(\$3,746.00)		P(33)B Notes 12, 13, 18, 19 & 30 TA5 NC	Z	4
6	129Z 00 FYR CTRL (F40/N)		XX		\$7,538,200		Z	4
	a. P/N 37620 (Q) Add on Stabilization System for the M48A5T1 Tank	200		(\$37,691.00)		P(23)B Notes 12, 13, 18, 19 & 30 TA5 NC		
7	0000 00 FMS TRNG (N00/N)		XX		174,636			
	a. Training of Turkish Personnel by Contractor for TTS & AOS					Notes 11, 15, 24, 25, 26, 27, 28, 29, 34, 36 & 37 TA5 NC		
8	0000 00 BBK PUBO (N98/N)		XX		152.00	S(6) Notes 20, & 23 TA5 NC	A	4
	a. Publications as Listed on Annex E							

## **APPENDIX D**

### **FINANCIAL ANNEX B**

#### **SUPPLEMENTARY FINANCIAL TERMS AND CONDITIONS**

1. This agreement is financed entirely with cash, FMS loan funds, MAP funds, or combination thereof, as indicated in block 27 of DD Form 1513, Letter of Offer and Acceptance (LOA), or block 28 of DD Form 1513-1, Amendment to Offer and Acceptance. The Purchaser agrees to make payments in such amounts and at such times as may be specified by the U.S. Government, including any initial deposit indicated on the LOA required to meet financial requirements arising from this case.

2. The Foreign Military Sales Billing Statement, DD form 645, will serve as the statement of account and billing statement. An FMS delivery listing identifying items physically or constructively delivered, and services performed during the billing period, will be attached to the billing statement. The Security Assistance Accounting Center (SAAC) forwards billing statements to purchasers not later than 45 days before payments are due, and purchasers will forward payments in U.S. dollars (cash or request for



advance of loan funds) to the U.S. Government in time to meet prescribed due dates. For cases financed with MAP funds, these funds are merged in the trust fund and applied to the cases. Such costs as may be in excess of the amount funded by MAP or credit agreement funds must be paid by the purchaser, if additional MAP/credit funds are not available. Questions concerning the content of DD Form 645 billing statements and requests for billing adjustments should be submitted to the Security Assistance Accounting Center (SAAC/FS), Lowry AFB, Denver, CO 80279-5000.

3. Cash payments in U.S. dollars for initial deposits and amounts due and payable on Quarterly Billing statements (DD Form 645) are to be forwarded to the SAAC or other formally-agreed-upon depository in time to meet prescribed due dates. The preferred method for forwarding cash payments is by bank wire transfer. The following addresses apply for cash payments:

- a. Bank Wire Transfer to SAAC:  
Federal Reserve Bank of Kansas City, Denver Branch  
FRB/DVR (3801) Air Force AFAFC/SAAC
- b. Bank Wire Transfer to Federal Reserve Bank of  
New York  
Federal Reserve Bank of New York  
Foreign Accounts Control Staff  
33 Liberty Street  
New York, NY 10045



c. Check mailing address for SAAC:  
AFAFC/SAAC  
Lowry AFB  
Denver, CO 80279-5000

4. To authorize payments of initial deposits required on LOAs or amounts due and payable on FMS billing statements from funds available under loan agreements, the Borrower will submit a letter request for each advance of loan funds addressed to the Secretary, Federal Financing Bank, c/o U.S. Department of the Treasury, Washington, DC 20220. Each request to the Federal Financing Bank for an advance will be forwarded to the Defense Security Assistance Agency, DSAA-COMPT-FR&CPD, Pentagon, Room 4B659, Washington DC 20301, with a letter requesting DSAA approval. Letter format and specific instructions for processing loan advance requests are included in the applicable provisions of each loan agreement. Questions pertaining to status of loans and associated balances should be directed to the above DSAA address.

5. If full payment is not received by SAAC by the prescribed due date, interest shall be charged as outlined in General Conditions, Paragraph B.3.g. of Annex A to the LOA. The principal of the arrearage will be computed as the excess of cumulative financial requirements over cumulative

collections (cash and loan) shown in the FMS Billing Statement after the payment due date.

6. The initial deposit of \$31,508,206 required to accompany this LOA is an integral part of the purchaser's acceptance. If the advance payment is made from loan funds, the Credit Programs Division, DSAA, will submit payments to the SAAC in accordance with borrower requests for loan advances described above.

7. The payment schedule provided below is for planning purposes. The SAAC shall request purchaser payments in accordance with the payment schedule, unless DOD costs (including 90-day forecasted requirements) exceed the amounts required by the payment schedule. Should this occur, DOD would be unable to comply with the advance payment requirements of the Arms Export control Act and the U.S. will use its best efforts to provide a revised payment schedule (DD 1513-2) at least 45 days prior to the next payment due date. The purchaser is required to make payments in accordance with quarterly billings (DD Form 645) issued by the SAAC regardless of the existing payment schedule.

8. It is understood that the values on the LOA are estimates, and that the final amount to be charged for items or services furnished will be equal to the final total cost to the U.S. Government. When final deliveries are made and all known costs are billed and collected, the SAAC will provide a "final statement of account" which will summarize total final costs of this agreement. Should the final total costs be less than the funds collected, such excess funds will be available for payment of unpaid billings for other agreements. If there are no such unpaid billings, excess funds will be disposed of as agreed upon between the purchaser and the Comptroller, DSAA.

9. To assist the purchaser in developing fiscal plans and annual budgets, the U.S. Government provides its best estimate of anticipated costs of this agreements in the following estimated payment schedule:

# ESTIMATED PAYMENT SCHEDULE

Payment Date	Quarterly	Cumulative
Initial Deposit:	\$31,508,206	\$31,508,206
15 Jun 86	27,115,072	58,623,278
15 Sep 86	27,998,708	86,621,986
15 Dec 86	24,187,921	110,809,907
15 Mar 87	15,893,997	126,703,904
15 Jun 87	8,995,100	135,699,004
15 Sep 87	3,386,041	139,086,045
15 Dec 87	351,920	139,437,965
15 Mar 88	63,805	139,501,770

## LIST OF REFERENCES

1. Schumacher, David J. (Col, USA), and others, *The Management of Security Assistance*, 3rd Ed., Defense Institute of Security Assistance Management, 1982.
2. Jones, Samuel L., *An Analysis of FMS Management Viewed at the Field Activity Level*, Master's Thesis, Naval Postgraduate School, Monterey, California, September 1979.
3. Cullin, William H., *How to Conduct Foreign Military Sales*, The Bureau of National Affairs, Inc., 1983.
4. U.S. Arms Control and Disarmament Agency, *World Military Expenditures and Arms Transfers*, 1987.
5. DOD Defense Security Assistance Agency, *Security Assistance Management Manual*, 1980.
6. Interview between Mrs. Sharon McDonnell, Command Country Manager, U.S. Army Armament, Munitions and Chemical Command, Davenport, Iowa, and the author, 23-24 March 1989.
7. U.S. Army Armament, Munitions, and Chemical Command, *Security Assistance Operating Procedure*, Government Publication, Rock Island, Illinois.
8. Interview between Mrs. Ann Amlin, DSAA, Financial Management Division, program Analyst, Pentagon, Washington, DC, and the author, 22 March 1989.
9. Interview between LtCol Bill O. Schmieder, USAF, DSAA, Country Desk Officer, Pentagon, Washington, DC, and the author, 22 March 1989.
10. *Congressional Presentation for Security Assistance Programs*, Government Printing Office, Washington, DC, 1989.



11. Interview between Mr. Ivan Young, U.S. Army Material Command HQ., U.S. Army Security Affairs Command, Program Manager, Alexandria, Virginia, 21 March 1989.
12. Foreign Tank Support Branch Security Assistance Management Directorate, "Turkey Tank Program, Status of Cases", paper, February 1989.
13. U.S. DOD Letter of Offer and Acceptance (DD Form 1513), Subject: Offer of Tank Fire Control System to Turkey, 13 January 1986.

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Monterey, California 93943-5002
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Department of Administrative Sciences  
Naval Postgraduate School  
Monterey, California 93943-5002
7. Arnold E. Downs 1  
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